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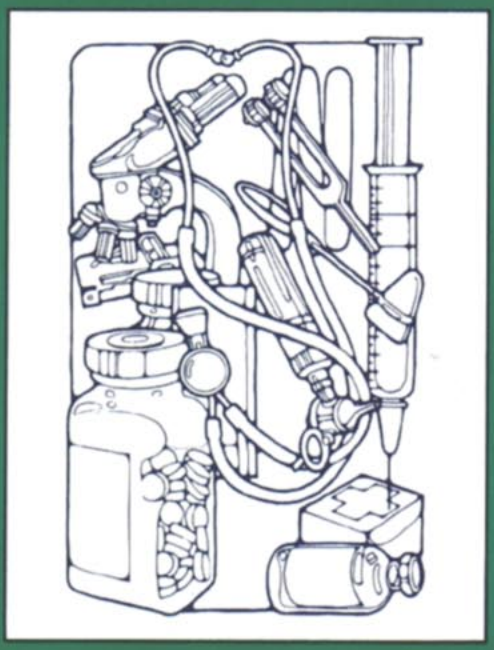

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PERSPECTIVE

Non-Developing Nations

Since World War II, more than a hundred new nations have gained independence. Most are primitive, agricultural, and were originally called "backward" or "undeveloped." But now they have a nicer label, "developing." Unfortunately, the label alone does not ensure development. That depends on whether the government welcomes or repels "developers" (entrepreneurs, savers, investors).

Many of these new nations have suffered civil strife, revolutions, and frequent government changes. But the new government that takes over after a coup is usually just as leftist, Marxist, Maoist, Leninist, communist, or interventionist as the previous one. Its officials are interested primarily in maintaining power and controlling the economy. Few of them have any understanding of the prerequisites for development. Property in these poor nations is seldom secure; enterprises are usually harshly controlled and regulated; threats of collectivization and confiscation abound; foreign investors are discouraged; and trade is restricted.

A few examples. One new African nation, Burkina Faso, levied high tariffs on animal-drawn plows and on irrigation pump engines that its farmers needed to produce. Mozambique's Marxist government has destroyed that nation's economy; its capital city, Maputo, lacks virtually everything; soldiering is one of the few steady jobs available as only the nation's army prospers; yet imports of rice, corn, and consumer goods in exchange for oil were banned during a recent economic emergency. Egypt maintains control over her economy, discourages private entrepreneurs, and the country remains desperately poor. Collectivization and a socialist police state have crippled production in Tanzania. Price controls in Ghana have made that relatively rich country poor. In some African countries, according to one report, farmers who sell on the black (free) market, in defiance of the price controls, are routinely shot.

Policies that deter development are not limited to Africa. Massive government intervention in Malaysia discourages foreign invest-

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ment and production. In El Salvador, the production of coffee, sugar, and cotton plummeted after the larger landowners were expropriated. The proposal for a joint Chrysler-Mexican truck factory was rejected by the Mexican government lest it lose control of the economy. Stringent labor laws hamper production in Venezuela. The examples could go on and on.

To deserve the label "developing," these poor nations should attract entrepreneurs and investors by protecting private property.

—BBG

Developing Nations

What is the "secret" of developing nations? Let us look at the historical record.

Consider, for example, the German economic "miracle" following World War II. Her cities were in rubble and teeming with millions of displaced persons. The people were hungry, their clothes were in tatters, and many were living in makeshift hovels. There was no food in the stores, so both money and ration cards were worthless.

Then, in June 1948, a fundamental change took place. The U.S. and British military governments replaced the inflated wartime marks with a sound currency. At the same time German economic minister Ludwig Erhard, against the advice of his advisers, abolished price and wage controls. According to one report:

"The black market suddenly disappeared. Shop windows were full of goods; factory chimneys were smoking; and the streets swarmed with lorries. Everywhere the noise of new buildings going up replaced the deathly silence of the ruins. If the state of recovery was a surprise, its swiftness was even more so. . . . Shops filled up with goods from one day to the next; the factories began to work. . . . One day apathy was mirrored on their faces while on the next a whole nation looked hopefully into the future."

For the first time in years, German farmers and other producers began to bring goods to market. For the first time in years they could sell their produce for money that had some value. The post-World War II "German economic miracle" had begun. With fewer economic controls to hold them back, the people worked harder and the economy boomed.

Similar "industrial revolutions" have developed also in Japan, Korea, Taiwan, Hong Kong, and Singapore as each has allowed entrepreneurs more freedom. Even India has reduced some controls over agriculture and is now producing enough to feed her huge population.

History shows time and again that people prosper when governments protect private property, when money is sound, and when individuals are permitted to buy and sell at mutually agreeable prices. The free market is the only path to economic development.

—BBG

Socialized Medicine

British correspondent Anthony Lejeune reports in the February 1987 issue of *Private Practice* on the deteriorating condition of Britain's National Health Service:

"[A] 65-year-old mechanic from Battersea in central London had a hernia diagnosed 10 years ago; he was operated on within four weeks. But now he needs another operation, and he has been on the waiting list for a year. At the last annual meeting of the British Medical Association, Dr. John Marks said that at his local hospital, Barnet General in outer London, patients had to wait 10 weeks for an appointment with a dermatologist, 15 weeks to see an ear, nose and throat specialist and 14 weeks to see an orthopedist. 'You're lucky!' cried doctors in the audience.

"A survey of 130 hospitals showed that 70 percent had beds temporarily closed or staff doctors who complained of having to discharge patients early to make room for others. A report from the Office of Health Economics estimated that 1,230 people younger than 65 were dying each year from kidney disease because dialysis or transplant facilities were not available, and that three times more people needed coronary bypass operations than were receiving them."

The British experience with socialized medicine may be a forerunner of developments in the United States. For some disturbing trends in the U.S. Medicare system, see Dr. Jane Orient's article on page 284.

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One Complaint per Customer, Please

by Jane M. Orient

Paying for what you get, in the hospital at least, is becoming outmoded. Medicare now pays hospitals on the basis of their patients' diagnoses, and patients receive whatever care their doctors think is appropriate. In other words, Medicare payments are determined *before* costs are incurred, as opposed to traditional fee-for-service payments, which are made after services have been performed.

Medicare payments have been modeled after "diagnosis related groups" (DRGs), which were originally used at Yale to classify patients so that the costs of caring for them could be studied more easily. DRGs suddenly emerged from the obscurity of the laboratory when the government required hospitals to start using them in 1984 for all Medicare patients. The central planners sent out a directive, and hospitals everywhere hastened to install computers, software, and specially trained personnel in order to comply. Few academicians have ever seen their schemes so rapidly implemented, bypassing the normal stages of testing and marketing, despite the most caustic criticism from the people who actually have to "make the system work." Some private insurers also adopted the method because they feared that otherwise they would be burdened with more "cost-shifting" from Medicare patients onto the bills of privately insured patients.

The DRG method of prospective payment—in contrast to fee for service—is based on averages. The hospital receives the average amount that it cost, in past years, to take care of patients with a certain condition. Of course, each patient is different, so the hospital's payment may be substantially more or less than the patient's care actually cost. A few adjustments are made: for age over seventy, and/or for the presence of one or more complicating conditions. However, if the patient has more than one diagnosis, the hospital is paid only for the one that is considered to be the main reason for admission.

The idea of DRGs is to force hospitals to become more "efficient." However, the term "efficiency" has taken on a new meaning that can best be explained by an example.

Suppose that a patient with an inflamed gall bladder also has a skin cancer on his face. I had a patient like that. I asked the surgeon to remove the skin cancer as soon as he finished with the gall bladder. That way, he'd just have to scrub once. "Sure. No problem," he said. The patient also thought it was a good idea—only one trip to the operating room, and since he'd be asleep anyway, there would be no need to stick needles into his face to give a local anesthetic. The typist added a paragraph to the operative report. The cleaning crew only had to clean the room once. The scheduling clerk put just one procedure on the schedule, allowing five minutes extra. The messenger made one trip to take both the gall bladder and the skin cancer to the pathologist. Pretty efficient, don't you think?

Not according to the new Medicare definition. A doctor from New Jersey recently explained how his hospital managed such a case under DRGs. If the skin cancer had been removed during the gall bladder operation, the hospital wouldn't have been paid for the extra operating room time, or the sutures, or the biopsy. Therefore, they just took out the gall bladder, and scheduled the patient to come back to out-patient surgery at a later time for his skin cancer. Being "efficient" means to concentrate on the main diagnosis. The New

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Jersey hospital was rewarded for its "efficiency" by being paid for two separate procedures, instead of just one (or one plus a little more, as our hospital was paid before DRGs).

This concept of efficiency would be even easier to understand if it were applied to other familiar situations. Imagine that your car needed a new battery, and also had a leaky radiator. If the mechanic could be paid for only one job at a time, he might say that he couldn't fix both problems at one visit. He might fix the important problem—the battery—and advise you to bring the car back in a month (not too soon, because of the committee for auditing early returns). Meanwhile, he might suggest that you keep a jug of water in the trunk, and one eye on the temperature gauge.

A plumber working under DRGs might have to say "Sorry, a dripping faucet is not a complication of a malfunctioning water heater. I'll put you on the list for another visit." Or worse, he might tell you that your Brand X water heater requires parts that are more expensive than average, and he can't afford to fix it. If it were only five years older, it would fit into a different category that paid better, but as it is, he can't help you.

"Winners" and "Losers"

That brings up another problem with DRGs. Sometimes the hospital bill is higher than average, not because of inefficiency, but because the patient is sicker than average. Under DRGs, hospitals make a profit on some patients: those who recover quickly and uneventfully from a relatively simple problem or those who belong to a high-paying DRG. Hospitals lose money on patients who develop complications, or recover slowly, or undergo a procedure that isn't in the computer yet. (Lens implants were in that category in New Jersey when the system was first tried.)

What must the efficient hospital do, in order to assure enough income to pay the nurses and the laundry and the mortgage? Administrators are advised to "manage the case mix." That means to bring in more patients with profitable diagnoses (so the hospital will get paid for *not* doing things) and reduce the number of patients with multiple or complex diagnoses (so that fewer things will have to be done without payment).

For help in this management problem, the hospitals seek the cooperation of the doctors. They distribute lists of the various DRGs (with the amount of payment for each) and encourage doctors to make more "accurate" diagnoses. There is now a new kind of continuing medical education conference, called "economic grand rounds," that concerns how to save money on patients with "losing" DRGs by reducing the number of tests or by ordering less expensive treatments. The utilization review committee has become increasingly vigilant about patients who exceed the "length of stay" criteria. Patients are being sent home earlier.

Doctors are being encouraged to think like members of a large team, rather than like individuals. They must keep the welfare of the hospital in mind. If the hospitals do well, then doctors will do well. To help them become better team players, they receive computer printouts of their cost profiles, which can be compared with those of their colleagues. Those who are costing the hospital too much money may soon face loss of their admitting privileges.

The Next Step

Not surprisingly, DRGs for hospitals have not solved the problem of the Medicare deficit. As usual, the government prescription is "more of the same." Some have advocated including the doctor's fee under the DRG, starting with three specialists who are thought to be especially overpaid: radiologists, anesthesiologists, and pathologists. A fourth type of hospital-based physician, emergency medicine specialists, might be added next.

But the real goal of the federal government is to eliminate the bother of dealing with patients as individuals. DRGs may be just a stopgap measure on the way to capitation: payment by the head, rather than by the diagnosis.

Medicare patients are no longer just individual social security numbers. When admitted to the hospital, they become a member of one of 467 groups. Some of them are "winners," and others "losers." Soon, they may just be a capitated unit in an undifferentiated mass.

In that event, all of us will be losers. □

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Free-Market Mail Is on the Horizon

by Melvin D. Barger

Writing in *The Freeman* in October 1962, I discussed a proposal that seemed hopelessly quixotic to friends and neighbors. This tilt at the windmills was a plea for private operation of postal services.[1] It seemed so radical that the mere suggestion evoked laughter. Post office services had been a government monopoly so long that any alternative seemed ridiculous.

It is pleasing to report, 25 years later, that the battle for private mailing services is all but won. People who would have scoffed at the idea in the 1960s now admit that private mail delivery makes good sense. Sooner or later, this will gain enough public acceptance to win private mail a fair trial. Why is this coming about?

There are several reasons. One is that a few libertarians managed to keep the idea of free-market mail alive. Early champions of the concept included Frank Chodorov and Leonard E. Read, who contended that no one has the right to prevent anyone from providing or using a mail service or, for that matter, engaging in any other peaceful activity. Private enterprise also has regained a respectability it hasn't had since the 1920s. This came in the wake of disenchantment with failed socialist schemes. But another cause of this change is the U.S. Postal Service itself—its performance over the years has so exasperated Congress and the public that even radical alternatives to the current system can be considered.

Meanwhile, the relentless march of new enterprise has given rise to overnight mail and the promise of stunning advances in electronic communications.

Here's what thoughtful writers have been saying about the U.S. Postal Service. Writing in the January 7, 1987 *Wall Street Journal,* James Bovard called the Postal Service "a mess" and concluded that contracting out mail service to private companies could achieve substantial savings. In *The New York Times* (August 9, 1985) Stuart M. Butler focused on the USPS financial mess and asked if it isn't time to sell the postal service. And a news article in *Business Week* (August 18, 1986) discussed newly appointed Postmaster General Bob Tisch as "a new man to tackle the postal mess"—a tacit way of saying that USPS's troubles are a matter of common knowledge and agreement. Even a group associated with consumer activist Ralph Nader has focused on postal problems, and has published a book by Kathleen Conkey entitled *The Postal Precipice: Can the U.S. Postal Service be Saved?*[2]

In my view, the answer is that the USPS cannot be saved in the sense of transforming it into a healthy enterprise deserving of respect. As in the past, it can be propped up and maintained indefinitely by frequent subsidies and other assistance. But the mood of the public and the rising tide of criticism suggests that a time for dramatic change is near, that we want

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something besides an outmoded and fumbling postal service. A leap forward into free-market mail could come shortly.

Let the Market Decide

Leonard E. Read thought there could be two phases in the move to free-market mail.[3] First he would have repealed the Private Express Statutes that give the government postal service a monopoly over first-class mail, and then he would have stopped Congressional funding for the Post Office. But the second phase should not be needed for an effective beginning. In order to make the move to private mail, all that's needed is to repeal the Private Express Statutes. After the repeal, let the market itself decide who should carry the mail and how it should be handled. As new systems come on stream, Congress could then decide about future support of the Postal Service.

There may be, in fact, good reasons for *not* making any changes in the U.S. Postal Service for the time being. Let private systems coexist with the USPS, just as the United Parcel Service now competes with USPS package shipments. Let users make their own decisions and comparisons. Also, let them have the opportunity to view private mail in operation before making any plans to dismantle the USPS.

One also should not overstate the case for private mail. Private mail offers many opportunities, but it could also force changes upon many who have vested interests in the current system. It would be false and misleading to promise that private mail systems would immediately provide *every* service now being supplied by the USPS. Rural free delivery, for example, would undergo radical change and probably curtailment under private systems. This is an issue that Congress and the public will have to face in due time. But rural free delivery should not be any part of a reasonable plan to repeal the Private Express Statutes and to *let anybody carry mail*. The libertarian goal should be to give private mail services the chance to prove themselves; it is not necessary to deal with political questions about the USPS at the same time.

Meanwhile, there are still a number of arguments which are raised in opposition to private mail. What follows is a discussion of a few of them:

The Cream-Skimming Argument

One of the most persistent arguments against private mail is so-called "cream-skimming." According to this argument, private mail services immediately would leap into the most profitable categories of mail delivery, leaving the USPS to serve only the high-cost routes and customers. The USPS would then lose revenues which help cover its costs on other services, with the taxpayers being forced to make up the difference.

The cream-skimming argument was dealt with by John Haldi and his associate Joseph F. Johnston, Jr., in a monograph for the American Enterprise Institute.[4] They point out that the very existence of this argument demonstrates that "some mail users are overcharged under the existing rate structure." In a truly competitive market, they say, such rate-making practices would be self-defeating. They note that "cream-skimmers" in a competitive market are really the "good guys" who cut prices and keep other suppliers honest!

There was a surprising reappearance of the cream-skimming argument during the recent breakup of the Bell System. Unknown to most people, the Bell telephone monopoly had traditionally undercharged for residential phone services while overcharging long-distance and business customers. But this practice was disrupted by the famous 1968 Carterfone court decision. Carterfone opened the way for business and residential use of interconnecting equipment and helped pave the way for MCI's entry into long-distance services. And, needless to say, business and long-distance customers had no desire to pay higher rates to subsidize residential users once they had access to lower-cost sytems.

In both the USPS and AT&T examples, the cream-skimming argument is employed to justify what is essentially an unfair situation. It is wrong to impose higher rates on one class of customers in order to subsidize services to another group. Market forces will always move quickly to end such arrangements if suppliers

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have access to the market. Postal services need some cream-skimming "good guys" who can help clean up this unfairness!

Improving the Present System

From time to time, there's been hope that a change in management might bring new life and efficiency to the Post Office. This was the case during the Eisenhower Administration when Arthur E. Summerfield, a successful businessman, was appointed Postmaster General. With considerable publicity, Mr. Summerfield assailed some of the "horse-and-buggy" practices of the U.S. mails and sought to make Post Office practices more businesslike and up-to-date.[5] He was horrified, for example, to discover that postal clerks in Denver had to sort mail on the street because of cramped building space.

While Summerfield probably made some improvements in the Post Office, he ran into the problems that confront every business executive who moves into government. There is a vast difference, the executive learns, between managing for profit and managing in a bureaucratic, politicized environment. Mr. Summerfield also came into conflict with the postal unions and faced the usual resistance of an entrenched bureaucracy. His proposed changes made barely a ripple in the existing structure.

A seemingly more promising effort to revamp the system grew out of a 1968 report by the President's Commission on Postal Reorganization, headed by Frederick R. Kappel, a former chairman of AT&T. The report recommended that Congress charter a government-owned corporation to operate the postal service. Mr. Kappel's great prestige undoubtedly was a factor in Congress's decision to create the new postal corporation launched on July 1, 1971.

Far from solving the postal problems, the reorganization appeared to make them worse. Within a few years, problems had intensified to such a point that Robert J. Myers, publisher of *The New Republic*, wrote a scathing attack on the new corporation.[6] Coming from a source that usually favors government involvement in the economy, Myers' book must have seemed a most unkind cut. Some of his criticisms included the charge that postal corporation managers had become a self-serving elite, while postal unions had been able to wring fatter contracts from the new corporation than they had been able to get from the old bureaucracy. Malinvestment was rampant in the new organization, service was rapidly deteriorating, costs were spiraling in all directions, and attempts to mechanize often had proven unsatisfactory.

Although Myers did not understand the basic problems inherent in government management, his book brought attention to the inefficiencies of government corporations. The executives of the new postal corporation had no mandate to make a profit or to heed the other disciplines of the market. They performed as well as might be expected under the circumstances.

Nader's Proposed Rescue

Another way to save the Post Office has been proposed by Ralph Nader. Writing in 1982, Nader put forth a plan he called a Post Office Consumer Action Group (POCAG). Under this arrangement, a law would be passed requiring the Postmaster General to send a letter twice a year to all household patrons inviting them to join POCAG with a small annual dues payment. "Those consumers who so volunteer can shape the group's policies and work with its staff to reconstruct an American postal system, from its local roots to the national arena, that would make Franklin proud," Nader promised in *The Postal Precipice*. "A POCAG with a million or more members would be the representative constituency needed to reverse the decline and possible fall of the Postal Service in the coming generation."

It's hardly necessary for a free-market devotee to comment on Nader's plan, which simply would create a group with a government mandate to hassle and bludgeon postal officials. No single organization could possibly represent the divergent needs and interests of various mail users, and his POCAG probably would serve as nothing more than a platform for Nader's views. If government ownership and operation of the Postal Service is unsatisfactory, that is not likely to be corrected by a private group of gadflies. At the same time, however, Nader has helped by publishing a re-

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Federal Express's "Superhub" sorting facility in Memphis Tennessee. The company, founded in 1973, now handles 730,000 shipments daily.

port which details the continuing problems of the Post Office.

What do we want from our postal services? The fact is, no two people have exactly the same expectations. At various times and in many places, the Postal Service has been unable to perform in a satisfactory manner. Retail business people, for example, are wary of using the Postal Service for deliveries that have time value. A number of important business messages are now sent through express overnight courier service—private firms operating outside the government-owned system.

Recent advances in electronic telecommunications appear ready to make even more changes. Efficient electronic "facsimile" systems already are transmitting documents between business offices, and it's not hard to predict that low-cost units may soon become available on the consumer market. The postal monopoly already has been weakened to such an extent that little objection is raised to electronic "facsimile" systems, electronic mail, and overnight express mail.

The main pressure for these changes has come from business organizations, which need fast communications and already have substantial investments in electronic systems. While the USPS currently is providing express mail, its foray into electronic mail was a flop and was discontinued in 1984 following two years of operation and losses of about $50 million.

Of course, not all private ventures into electronic mail will succeed. But electronic mail and facsimile transfers offer new opportunities which cannot be ignored. It's not inconceivable that the bulk of printed mail could be conveyed electronically in the early part of the next century.

The Private Express Statutes

The idea of postal service as a government monopoly apparently was something the American colonies inherited from Great Britain. A government postal service was even included in the U.S. Constitution. But many private express companies flourished in the United States during the early 19th century. They were effectively outlawed by the 1845 Private Express Statutes which Congress passed at the urging of the Postmaster General. Even then, the cream-skimming argument had surfaced; the private carriers were operating on the most profitable

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routes and leaving the rest for the Post Office!

As with any law, the Private Express Statutes have been tested and interpreted over the years. It has been necessary to define what constitutes a letter, what is a postal route, and what limits should be placed on those who assist in the transfer of mail. Although there's been some slippage, the federal government has been largely successful in maintaining its monopoly over first-class mail.

But private firms have made inroads into the third-class mail market, and the success of UPS in the parcel business has been one of the Post Office's great embarrassments. The latest private breakthrough has been "time-sensitive" mail, a market now being served profitably by Federal Express, Airborne, and a number of other private firms specializing in overnight service. As new companies spring up to meet various communications needs, the pressures are bound to grow for easing or repealing the Private Express Statutes.

The Miller Proposal

The idea of repealing the Private Express Statutes received a recent boost from James C. Miller III, who was chairman of the Federal Trade Commission before becoming director of the Office of Management and Budget. "The postal system is a particularly good source (in the event that one is needed) for evidence that private enterprise performs better than government enterprise and that competitive markets perform better than monopolies," Miller wrote. "The costs of the Postal Service are significantly higher than they should be because the incentive to hold down costs—most notably, labor costs—is limited. Postal workers are paid far more than is necessary to retain their services. Because entry into postal markets is restricted, the Postal Service is able to pass those higher costs along to its customers." After discussing what might be expected to result from an end to the postal monopoly, he concluded that "All the available evidence suggests that competition in the market for first-class letter delivery would create substantial benefits." And he added, "Private enterprise will get the mail delivered —just as it did in the Old West."[7]

The idea of making mail delivery private never had high-level support like this back in 1962 when my article was prepared for *The Freeman*. But times and attitudes have changed, and we even have Congressmen who support repeal of the Private Express Statutes. The only question is when and how this might be managed.

The most likely future, even without repeal, is that the USPS will continue to be prodded by new ventures which threaten its legal monopoly. This will weaken the hold of the USPS over first-class mail. New electronic ventures also will give mail users new alternatives to first-class mail. What would be the impact, for example, of a low-cost (say $500) facsimile machine which any person could use at home? How will new technologies like fiber optics change communications? And who is to say what might happen even in services such as home deliveries?

How soon will we have a free market allowing anybody to carry mail? There's widespread approval of the idea already. Since the most powerful supporters of the *status quo* are the postal unions, the political problems of repealing the Private Express Statutes are formidable. But with enough competition from electronic messaging and other delivery services, the Private Express Statutes could simply become irrelevant.

It's time something like this happened. Mail is far too important to leave in the hands of a government monopoly. Let anybody carry it, and let the market decide who does it best. That seemed like a radical proposal in 1962. With the help of free-market advocates, technical advances, and the failings of the United States Postal Service, it is becoming a reality. □

1 "Could AT&T Run the Post Office?" *The Freeman*, October 1962. One point of the article was that AT&T's need for profits had helped make it more efficient than the Post Office. AT&T's regulated status, however, has not been without problems.
2 Published by The Center for Study of Responsive Law, Box 19367, Washington, D.C. 20036, 1983, 515 pages.
3 Leonard E. Read, *Anything That's Peaceful* (Irvington, N.Y.: Foundation for Economic Education, 1964), pp. 171-179.
4 *Postal Monopoly: An Assessment of the Private Express Statutes* (Washington, D.C.: American Enterprise Institute, 1974), p. 35.
5 Arthur E. Summerfield, *U.S. Mail* (New York: Holt, Rinehart and Winston, 1960).
6 Robert J. Myers, *The Coming Collapse of the Post Office* (Englewood Cliffs, N.J.: Prentice-Hall, Inc.), 1975.
7 James C. Miller III, "End the Postal Monopoly," *The Cato Journal*, Vol. 5, No. 1, Spring/Summer 1985.

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A Balanced Budget Amendment

by Hans F. Sennholz

The federal government has but two ways to balance its budget: raise taxes or reduce expenditures. The former is easy; anyone can contrive new levies. But new taxes may bring forth the wrath of those who are to bear them, which may spell political defeat to the legislators who impose them. A reduction in expenditures may be equally dangerous. To slash popular entitlements and transfer benefits may amount to political suicide.

There is a better way than raising taxes or lowering benefits, many politicians inform us. A *Constitutional amendment* requiring a balanced budget, they maintain, would restore fiscal discipline and mark a new chapter in American history.

The movement calling for a balanced budget amendment came to life in the early 1970s when it became apparent that the federal government was facing seemingly endless deficits. The movement gave rise to a number of bills which received Congressional attention in 1982 and 1986. On August 4, 1982, a bill that would require a balanced budget unless three-fifths of the members of both houses approve a deficit was passed by the Senate by a vote of 69-31, two votes more than the required two-thirds. A few weeks later the House approved it by simple majority, but fell 46 votes short of the two-thirds majority needed to approve a Constitutional amendment. When the Senate voted again on March 25, 1986, the bill fell one vote short of passage.

Congress was pressed into action by a call of 32 states—just two short of the required two-thirds—for a Constitutional convention to pass such a balanced budget amendment. Because no such convention has ever been convened since the Founding Fathers met to draft the Constitution, the thought of a convention strikes fear in the hearts of most Washington politicians. They are convinced that the convention would become a "runaway convention" that would set its own political, social, and economic agenda. To prevent such a divisive course of events, most members of Congress prefer to debate and adopt their own Constitutional amendment.

The champions of a Constitutional amendment point out that the Constitution permits special interest groups to lobby aggressively for government programs enriching themselves at the expense of all others, but diffuses program costs over millions of taxpayers. They perceive this as a Constitutional defect that needs to be corrected.

The opponents of the balanced budget amendment usually point at the economic problems of our time, such as poverty and hunger, unemployment, business and farm failures. According to AFL-CIO President Lane Kirkland, the proposed amendment is designed to take public attention from these problems. It is a "hypocritical and cynical hoax."

The advocates of the Constitutional amendment like to cite Thomas Jefferson who, just

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two years after the Constitution had been in effect, argued for a Constitutional amendment: "I wish it were possible to obtain a single amendment to our Constitution. I would be willing to depend on that alone for the reduction of the administration of our government to the genuine principles of its Constitution; I mean an article, taking from the Federal government the power of borrowing." To the advocates of a Constitutional amendment, Jefferson's "single amendment" is the balanced budget amendment.

It is difficult to argue with the wisdom of Thomas Jefferson. But he greatly overrated the ability of one generation to impart its wisdom to future generations, and for drafters of a constitution to guide and direct the destiny of their descendents.

For well over a century the U.S. Constitution revealed no particular defect that granted special interest groups an organizational advantage. Federal budgets were made to balance over a number of years, although wars and preparations for war brought heavy debt. But after peace was restored, the debt was quickly retired.

A Pyramid of Debt

The cornerstone to the present pyramid of Federal debt was laid during the 1930s; it grew rapidly during World War II, increased by leaps and bounds during the 1940s and 1950s, accelerated during the 1960s and 1970s, and reached trillion dollar proportions in the 1980s. At the present rate of growth it can be expected to double every few years.

To point out a Constitutional defect and suggest an amendment is to divert our attention from the true cause of the deficits: the great popularity of political spending. Politicians love to spend and the people love the spending programs. The diffusion of program costs does not explain the lack of opposition, nor does it reduce the costs and alleviate the heavy burden on producers. Most transfer schemes meet little opposition because the electorate approves of the arrangement and partakes of the transfers. The result is chronic deficit spending at ever higher levels.

It is difficult to hold future generations to the strictures and limitations set by an earlier generation. Even if Thomas Jefferson's "single amendment" had been added to the Bill of Rights, it would be difficult to imagine Abraham Lincoln submitting to its discipline during the heat of the Civil War, or for the Wilson and Roosevelt administrations to abide by its limitation during two World Wars.

Similarly, it is hard to imagine that the present generation could be barred from acting as it wants to. A Constitutional amendment standing in the way of greater spending would simply be ignored, repealed, or reinterpreted by a clever judge. Or, government expenditures would be hidden from the eyes of outside observers. No Constitutional amendment, no matter how comprehensive, could prevent the granting of benefits by government officials eager to bestow them on beneficiaries anxious to receive them.

In purpose and design, a balanced budget amendment would resemble the eighteenth amendment, which established Prohibition. It did not change human nature; instead it led to abuses and evils far greater than the amendment was supposed to correct. It was abolished by the twenty-first amendment, thirteen years later.

A Constitutional mandate to balance the budget could be interpreted to mandate higher taxes and more government intervention. Most politicians, including the amendment advocates, are likely to opt for boosting revenue rather than reducing expenditures. After all, they themselves launched the expenditures and created the entitlements; they would be rather reluctant to rescind them as long as they can raise revenues through new taxation.

Most mainstream economists are reluctant to raise taxes as long as economic output is low and unemployment is high. In the footsteps of John Maynard Keynes, they prefer contracyclical government spending together with easy money and credit to stimulate economic activity. They are the original deficit spenders; they do not favor a Constitutional amendment to balance the budget.

A few naive friends of the market order may support the amendment in the hope that it will block further growth of entitlement spending. But they would be sadly disappointed if the

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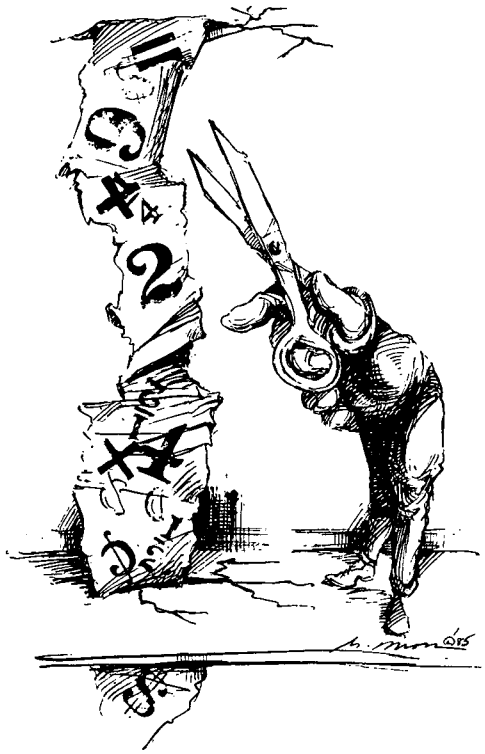

amendment merely opened the gates to substantially higher taxation, followed by painful stagnation or even depression. Yet, they continue to cling to the promises of politics when public attitudes and opinions disappoint them.

Other influential economists calling themselves "supply-siders" are convinced that deficits do not matter. They keep their eyes on the rates of taxation, convinced that taxes stifle production, lower labor productivity, and cause unemployment. They would lower income taxes in order to stimulate and invigorate economic output. It is most unlikely that they would cast their votes for higher taxes when faced with the mandate to balance the budget.

And yet, in politics we must brace for the unexpected. After all, Congress has done the unexpected in similar situations. In 1932, in the depth of the deepest depression in U.S. history, Congress doubled the income tax and substantially boosted other taxes; it virtually guaranteed continuation of the depression for years to come. Under the strictures of a balanced budget amendment Congress would find an excuse to boost taxes significantly no matter how they would depress the economy. And just as in the 1930s, the American economy would sink into a deep depression from which it would take many years to recover.

The prospects for a Constitutional amendment in the foreseeable future are rather slim. The political opposition, which is both vocal and unrelenting, is blocking the way. It draws its strength from the armory of the welfare and transfer state, the very ideology that brings forth the deficits. In its judgment, the boon of benefits and entitlements exceeds by far the potential harm of debt and deficit spending. The amendment movement, which obviously does not share this appraisal, stands condemned for either greedily and covetously begrudging the benefits, or grossly overstating the effects of debts and deficits.

When they do not question the judgments and motives of pro-amendment individuals, the spenders are quick to point at poverty and hunger, depression and unemployment, and countless other undesirable conditions. Farmers lament low commodity prices and low farm income, the elderly moan about sickness and age, labor leaders wail about depression and unemployment. They all are convinced that government spending may provide a solution to their particular problems. Unfortunately, economic reality differs as much from their visions and convictions as it does from the hopes and beliefs of the advocates of a Constitutional amendment.

The economic well-being of all Americans, including that of farmers, workers, and the elderly, depends on American capacity to produce and compete in foreign markets. Economic productivity in turn is a function of productive capital and the investment of capital. When government deficits consume the lion's share of the capital coming to market, economic progress grinds to a halt. Depleted and exhausted capital markets cause labor productivity to decline and unemployment to rise—especially in capital-intensive industries that are losing their ability to compete in world markets.

Most beneficiaries of government largess, unfortunately, do not reflect upon the adverse consequences of capital consumption. They do not ponder over what they owe to others. They are always looking at the present; the future does not interest them. The golden age is now.

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A Constitutional amendment cannot impose temperance, prudence, and self-reliance on people who prefer self-indulgence, folly, and dependence. It cannot bring forth balanced budgets if the people prefer political largess. If an amendment were to be imposed against their wishes, the people bent on deficit spending would find new ways of spending.

No Constitutional amendment calling for balanced budgets could close all potential channels of deficit spending. It is unlikely that it would block the present backdoors that permit Congress to engage in generous spending, not to mention future backdoors that can be constructed. At this very moment Congress is shielding massive entitlement programs, expensive contract and credit activity, and popular off-budget operations.

Federal entitlements are rights, privileges, and benefits to which the beneficiaries—individuals or government agencies—are legally entitled. They range from such massive programs as Social Security and Medicare to relatively minor programs, such as compensation for pollution victims. An entitlement binds the federal government to grant it and authorizes the judiciary to enforce it. It is unlikely that a Constitutional amendment would be allowed to prevail over it.

It is doubtful that a Constitutional amendment could be drafted to cover the numerous agencies that are Federally owned and controlled, but deleted from the budget. The Export-Import Bank, the Postal Service Fund, the Rural Telephone Bank, the Rural Electrification and Telephone Revolving Fund, the Housing for the Elderly and Handicapped Fund, and several other government agencies are removed from the budget, but continue to carry out government programs.

Although it is a part of the Treasury Department, the Federal Financing Bank operates outside the budget. Its lending is not counted as budget outlays; its total loans to Federal agencies and private borrowers presently exceed $120 billion, which are off-budget. How would a Constitutional amendment be made to cover FFB activity?

The federal government controls a great number of privately owned enterprises that conduct government programs. There is the Federal Home Loan Bank System that promotes home ownership according to Federal plan; the Federal Home Loan Mortgage Association that manipulates mortgage credit and mortgage markets; the Student Loan Marketing Association, the Farm Credit System, and several other such organizations. They presently hold some $438 billion in loan assets.

No political regulation, law, or amendment can impose integrity on people who prefer profuseness, dependence, and debt. The American people may have to learn anew that a society cannot long continue to live beyond its means.

In modern terminology, all this spending is "social progress." Most Americans favor it, legislators enact it, and government agents administer it. A Constitutional amendment calling for balanced budgets, enacted under such conditions, may restore balance through significant tax boosts. But it may also lead to massive reorganization of government activity and spending. In particular, it may prompt a Federal rush to the backdoors of government spending, and give rise to countless new off-budget agencies and private enterprises under government control. The possibilities of concealment and just plain trickery are endless. It is naive to believe that a balanced budget amendment, enacted by the masters of subterfuge, could dampen the enthusiasm for Federal largess.

No political regulation, law, or amendment can impose integrity on people who prefer profuseness, dependence, and debt. They may have to learn from their own experience that debts and deficits are designed to serve the wishes of today and deny the needs of tomorrow. The American people may have to learn anew that a society cannot long continue to live beyond its means. □

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Poverty: Material and Spiritual

by Irving E. Howard

Poverty is relative. What we describe as "poverty" in the United States would be wealth in most any other country. The relative nature of poverty is illustrated by the so-called official "poverty line." The higher the average income, the higher climbs the poverty line, which for a family of four is now approximately $11,000 per year. Keep on changing the definition of poverty and there will always be a segment of society below the officially designated level.

There are many factors that make the accuracy of this "poverty line" suspect. For example: If such government handouts as food stamps, fuel assistance, low cost housing, and the like were added to the income of those below the poverty line, many would be well above it.

Some people are genuinely poor, lacking the means to provide what most of us would agree are the necessities of life. This is statistical poverty and it may be caused by illness, accidents, disabilities of various kinds, drugs, alcohol, or whatever. But these are minor causes, compared to the statistical poverty resulting from the welfare state's interventions to redistribute, regulate, and control.

The minimum wage law, for example, sounded innocent enough when first proposed. But many people now recognize that the minimum wage creates poverty because it causes unemployment, especially among unskilled teenagers and blacks.

We see the effects of the minimum wage all

around us. For example, there were many small sawmills in Appalachia when the minimum wage law was first adopted. Many of these had to close their doors because they could not afford to pay the minimum wage. Each succeeding increase in the minimum wage caused more marginal businesses to fail, disemploying workers and increasing poverty in the region. In addition to causing many businesses to close, the minimum wage law has caused many firms to cut back, new businesses not to be launched, and businesses not to expand.

A few years ago a Vermont ski wear manufacturer was buying hand-knitted goods from local housewives. It was a convenient home in-

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dustry for housewives who preferred to work at home, but the Labor Department brought suit against the company for violating the minimum wage law. So home knitters were disemployed, their income cut off.

The minimum wage law is only one example of government intervention. Each intervention harms some people and seems to justify further interventions to correct the injuries caused by earlier interventions. The end result is a socialized society, and the record shows that socialism impoverishes any society which adopts it.

Take the case of Cuba. Cuba was the most prosperous country in the Caribbean region before Castro took over. Now, as a communist state, it is a poorhouse. Without assistance from the Soviet Union, Cuba would be suffering famine.

Capitalistic Rhodesia used to export food, but now, as the communist state of Zimbabwe, it must import food. Unemployed Zimbabweans have been fleeing to the relatively free economy of South Africa, where they have found employment and are sending their wages back to their families in Zimbabwe. Since the United States has imposed sanctions on South Africa, that solution is disappearing.

Mozambique was once a prosperous nation under Portuguese rule, but now as a communist state it is also in a famine condition. Like Zimbabwe, its unemployed have been migrating to South Africa to earn wages to send back to Mozambique.

Sweden, long hailed as "the middle way," is no exception to this trend of socialist decline. Sweden has now used up the fat she accumulated by being neutral during two world wars and is experiencing serious economic problems, rising unemployment, and a high suicide rate.

The Socialist Solution

The socialist solution to poverty is to redistribute the wealth capitalism has created. Taking from those who have and giving to those who have less sounds charitable, but it makes the problem worse by destroying the incentive to create new wealth. Welfare state measures cause poverty! Wealth is not static; it is dynamic and in a condition of continuous creation. Capitalism—the free economy—is productive; it is the only way to bring about prosperity.

There is a need in capitalism for voluntary charity. The Apostle Paul wrote to the Ephesians: "Let him that stole steal no more; but rather let him labor, working with his hands the thing which is good, that he may give to him that needeth." (Eph. 4:28) But before we can practice charity there must be production, else there will be nothing to give. Milton Friedman has echoed the spirit, if not the letter, of St. Paul, by suggesting that there should be an Eleventh Commandment: "Let he who practices charity do it with his own money."

There is no good word to be said for statistical poverty, especially when we bring it on by our own misguided policies; but spiritual poverty is worse. I mean the loss of meaning and purpose in life, the loss of faith and hope.

The nineteenth century was the age of mechanistic materialism. This world view encouraged the theory of Marx that men and women are social atoms whose lives need to be engineered by planners who know what is best.

The Declaration of Independence concluded with a great phrase that reveals a generation of leaders with a very different faith: ". . . with a firm reliance on the protection of Divine Providence, we mutually pledge to each other our Lives, our Fortunes and our sacred Honor." The fact that their lives and fortunes were at stake proves these were not empty words.

Fortunately, there are many Americans today whose "firm reliance" is on "Divine Providence." But that has not been the faith of those who have led us down a socialistic path in government and a humanistic path in education and religion.

When the New Deal was in its heyday, Dr. Harry Emerson Fosdick in one of his radio addresses raised a question regarding its welfare measures: "What if this destroys the American character? What then?" The question was not answered. The American character has not been destroyed, but it has been impaired.

Before the 1930s, the American was buoyant and ever the optimist. Optimists still exist, but a change has taken place. Fear of the future has laid a cold hand upon us. This shows up in our

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declining rate of saving. We were once noted for our saving rate; now our rate is exceeded by almost all industrialized nations, especially Japan which is poor in natural resources, but leads the world in her rate of saving. Why save if the future seems so uncertain? So instead of saving we gamble and hope to strike it rich. Even states and towns now finance themselves with lotteries.

Some would like to blame this uncertainty about the future on the atomic bomb, but it began before there was a bomb. Public school teachers frighten young people with horror stories of a nuclear holocaust and then lament that young people are afraid of the future. This fear of the future began when the materialist view that life is meaningless seeped into the American consciousness. The increase in suicides, especially among teenagers, is evidence that such persons have lost this ground for hope. It is evidence of spiritual poverty.

Without that "firm reliance upon Divine Providence" men and women become more and more dependent upon someone or something else. They turn to government instead of looking to their own resources. In the welfare system they become wards of the state clamoring for "rights" which do not exist. Or they become dependent on narcotics, alcohol, or drugs.

We are spending billions of dollars trying to control the drug problem and when we tell a foreign nation to stop selling us drugs, the response is that we should stop demanding drugs! This is a reasonable reply. Drugs are not a problem the police can solve. It is a moral and spiritual problem—a symptom of our spiritual poverty.

Is There a Cure?

How can we cure this spiritual poverty? We used to look to the churches and the schools to inculcate faith in God and a belief in moral values when the home did not do it. Today we cannot count on either institution.

The New York Times recently reported on a New Jersey high school class of 15 who were asked what they thought of a girl who found $1000 and turned it in. All 15 said she was a fool! The counselor gave no opinion on the grounds that counselors should not teach moral values. The counselor was only following the policy of modern secular education—that it must be "value free."

Not many years ago moral precepts were printed on classroom blackboards and students were given pieces to memorize which taught moral values, but not in the public schools of today—except in some rural areas or in strongly religious communities.

Many forces today are eating away at the institution of the family. Fewer and fewer families are "traditional" units with the father working and the mother at home with the children. Inflation has forced many wives to enter the work place, leaving the children during the day with no parent at home. Worst of all, however, is the destruction of the moral values which once held families together. Statistical poverty will not destroy a family unless there is also spiritual poverty.

Statistical poverty is a problem for which there is a solution: Less government intervention and more capitalism to create wealth. Spiritual poverty is much more difficult to remedy. It is pathological, rooted in a loss of faith in the purpose and meaning of life itself.

We do not need a government which thinks it knows what is best for us, and so turns citizens into wards of the state. We do not need a court system that launches into an uncharted sea of positivistic jurisprudence. We do not need a school system committed to "value free" education, leaving moral instruction to the home, which in many cases no longer exists as a viable institution. We do not need churches concentrating upon the material demands of man while ignoring his spiritual needs.

If we wish to survive as a nation, we must demand a government that protects life, liberty, and property and leaves law-abiding citizens alone to make their own way. We must demand courts and judges who decide the constitutionality of law in the light of legal precedent, leaving the business of lawmaking to legislatures. We must have independent schools where students study our heritage, and are given genuine heroes to emulate. And the laity must demand that churches proclaim faith in God, and inspire the hope which this faith alone provides. □

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Which Liberalism?

by Tyler Cowen

Friedrich A. Hayek, in his famous essay "Individualism: True and False" (Hayek, 1948), draws a distinction between two differing strands in Western thought: skeptical individualism and rationalist constructivism. As Hayek points out, at one time in history or another, each strand has claimed to be spokesman for liberal principles. Hayek argues that the two strands are irreconcilable, as rationalist constructivism will almost invariably lead to centralized planning and state domination. If the prevalent philosophy of an era grants man the ability to consciously redesign institutions in accordance with *a priori* principles, it is only a matter of time before such "rationalist" dictates are enforced through the state. Since the state is the "planner" *par excellence,* a belief in planning usually leads to a belief in extensive state power. Constructivist doctrines are primarily attributed to the French rationalists and are traced back to early seventeenth-century Cartesianism.

According to Hayek, skeptical individualism allows each person to pursue his own self-interest in light of the fact that the "best alternative" for this individual is unknown. Self-seeking behavior within a market framework will ultimately result in socially desirable outcomes. Hayek attributes this tradition to the Scottish Enlightenment and several other thinkers from the British Isles (e.g., Burke).

This raises the question: which liberalism? Are the two strands of Western thought that Hayek discusses irreconcilable? If so, which are we to choose? If not, how are they to be integrated?

Hayek makes most of his points with reference to intellectual history—it is in this field that I find a different answer to Hayek's questions. The two traditions of liberalism (rationalism and skeptical individualism) are related differently than Hayek suggests. For instance, Hayek attributes the idea of spontaneous order almost exclusively to the British Isles (Mandeville, Hume, Burke, Ferguson, Smith, etc.). However, the notion of spontaneous order finds both its roots and its highest development (at least through the nineteenth century) in France —often in the hands of the rationalists.

Hayek attributes the idea of "the result of human action and not of human design" to Mandeville's "Fable of the Bees" (1705). As Hayek would admit, these notions are ultimately rooted in Judaic, Christian, Hellenic, and Roman culture. However, their more proximate origins can be traced back to sixteenth-century France, before Mandeville's time.

French Individualism

Nannerl Keohane (1980, p. 83) has noted that "Individualism dominated French ethics and psychology from the end of the sixteenth century well into the seventeenth . . ." Keohane documents this statement not by examining Hayek's "false individualists" (the rationalists) but rather the skeptical French civic hu-

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manist tradition that descended from the Roman Stoics. (See chapters 3-13 of Keohane.) Montaigne is portrayed as the leader of this tradition—not only does he glorify freedom and individual virtue throughout his *Essays* but he also has a critique of "rationalist constructivism" that resembles Hayek's argument. Montaigne ascribes the ills of the world to man's attempt to know more than he is capable of—"If it is true, that man alone of all the animals has this freedom of imagination and this unruliness of thought . . . it is an advantage that is sold him very dear, and in which he has little cause to glory, for from it spring the principal source of the ills that oppress him: sin, disease, irresolution, confusion, despair." (Montaigne, vol. II, 12, p. 336)

Montaigne argues that reason is only a private guide to action (not a public guide) and should be tempered with extreme skepticism in order to avoid forcing one's will upon other people through coercion. (*Essays,* vol. III, 11, pp. 786-790) Instead, we should rely upon custom and accident for men are like ". . . ill-matched objects, put in a bag without order, find of themselves a way to unite and fall into place together, often better than they could have been arranged by art." (*Essays,* vol. III, 9, p. 730)

Such notions were not a brief episode in French thought which perished with the onslaught of Cartesian rationalism—"In these observations Montaigne inaugurates a long and fruitful tradition in French social theory, foreshadowing the *libertins* of the early seventeenth century, the Jansenists, and their English disciples such as Mandeville. Montaigne makes explicit the idea that private vices knit society together, that selfish motives lead men to serve the public good." (Keohane, p. 112)

A strong interest in spontaneous order characterized post-Reformation French thought—especially such thinkers as Pierre Nicole and Pierre Boisguillebert. Even before the Enlightenment this tradition was fairly well entrenched. Under Louis XIV, such thinkers as the Marquis d'Argenson developed ideas quite similar to Hayek's. (See Ogle on d'Argenson.) Not only was d'Argenson a strong critic of mercantilism and an advocate of laissez-faire but he also predated Hayek's later work on competition as a discovery process. Since overall or general political truths cannot always be immediately known, d'Argenson argues that the monarch should allow each individual to pursue his own interests in the hope that the resulting patterns of interaction will disclose or "contain" the sought truths. (See d'Argenson's *Considerations sur le gouvernment . . .*)

Despite the growing sophistication of French thought, there was still a serious weakness in French liberalism—the lack of a well-developed theory of natural law. However, with the growth of science, rationalism, and the oncoming of the Enlightenment this defect was remedied. Such thinkers as Gournay, Turgot, and Condorcet constituted the apogee of eighteenth-century liberalism. These intellectuals and their disciples combined an understanding of the spontaneous development of free institutions and a belief in the ability of reason to know that liberty is the only moral and practical alternative.

British Thinkers

While the British Isles produced many notable liberals during the eighteenth century as well, many of these thinkers were plagued by a sense of overall skepticism that moderated their liberal beliefs. Hume, for instance, thought that reason was incapable of judging the efficacy of legal institutions; therefore a free society was to be justified on the grounds that it had evolved through time and exhibited strong survival traits. This notion may have been plausible in Hume's day when liberalism was advancing, but it is far more difficult to justify in the twentieth century. Edmund Burke had the same problem—after having rejected natural law he was forced to fall back upon tradition for his justification of a liberal order.

Of course, the British had many thinkers who did not adhere to such views. Richard Price, Joseph Priestley, Thomas Paine, and James Macintosh were all strong advocates of natural law and laissez faire. Yet, almost as a rule, these individuals had direct links to the French, considered themselves rationalists, and were strong opponents of Burke. While another group of English rationalists, the Benthamites,

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did eventually become collectivists, this outcome can just as easily be attributed to the form of utilitarianism they advocated, rather than to their rationalism.

It was the nineteenth century that saw the full flowering of the French spontaneous order tradition in such liberals as DeStutt de Tracy, Charles Comte, Jean-Baptiste Say, Frederic Bastiat, and Gustav de Molinari. These figures found the proper mix of rationalism and a belief in the spontaneous order. Most of the nineteenth-century French liberals were consistent opponents of state power and defenders of inalienable rights. The case against state interference was explicitly grounded in a rationalist conception of the benefits of human freedom.

Yet, at the same time such rationalists were developing the theory of spontaneous order. For instance, the French economist Jean-Baptiste Say had fairly sophisticated notions of the spontaneous origin of money, money as a market institution, and the dangers of state interference with the money supply (see Say, 1855). Say and his followers had a theory of the market which was far richer and detailed than the arid Ricardianism of the British Isles. Bastiat—with his explanation of the "economic harmonies" of a market economy—was perhaps the leading spokesman for the spontaneous order. When asked how the market could manage to feed all of Paris, Bastiat simply replied that it was only necessary that each man attempt to feed himself.

Eighteenth- and nineteenth-century French rationalism led to laissez-faire liberalism. While many nineteenth-century totalitarians were also inspired by rationalism, Hayek overestimates the importance of this connection. The more critical intellectual relationship that Hayek does not examine is the intertwining of socialist and *feudalist* thought. For instance, nearly all of the nineteenth-century socialist critique of capitalism and the industrial revolution is taken directly from conservative, feudalist-inspired thinkers. In England, these feudal, anticapitalist thinkers included not only Southey and Coleridge, but go at least as far back as the Bolingbroke circle of the early eighteenth century. In addition, there were numerous sixteenth- and seventeenth-century critics of the market economy who argued that it disrupted the order, harmony, and justice of the feudalist system.

The situation in France was similar, as Kingsley Martin (1962, p. 236) has noted that "Eighteenth-century socialism sprang from a moral objection to the theory that luxury is socially beneficial. It was in origin a Puritan attack on economic hedonism." For instance, Morelly, the first French socialist to outline his collectivist utopia in detail, explicitly envisioned a feudal conception of society.

Hayek's thesis does not square with this evidence. To the extent that socialism springs from feudalism, the rationalist attitude must be viewed as strongly antisocialist since the rationalists were stringent opponents of feudalism. While many later socialists were strongly imbued with a rationalistic spirit, this is simply another aspect of the liberal tradition that socialism borrowed (and perverted). European socialists such as Saint-Simon, Auguste Comte, and Marx altered liberal rationalism in the same manner that they twisted the classical liberal concepts of class analysis, progress, and industrialism. It is not rationalism but lingering feudalism—the belief that the market economy is inherently unjust and inharmonious—that is at fault for this transformation.

Both rationalism and an understanding of spontaneous order are an integral part of the liberal tradition. Just as rationalism finds its sphere in choosing the legal order for a society, spontaneous order finds its sphere *within* this legal order. If the rules we choose are just, then free institutions will develop in an orderly, harmonious way which is conducive to peace and prosperity. This view can be considered the central message of Ludwig von Mises's *Human Action*. Mises, one of the greatest classical liberals of the twentieth century, embraced the best of both the British and French traditions. □

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The Economics of Errant Entrepreneurs

by Israel M. Kirzner

A recent stimulating *Freeman* article by Jane S. Shaw (April, 1987) provocatively drew attention to some of the benefits derived by society from entrepreneurial daring and imagination—even when it turns out that these are expressed in ventures that lose money and eventually fall by the wayside. Ms. Shaw cites a spiffy and charming new restaurant in Bozeman, Montana, serving gourmet seafood. She judged the venture to be "outlandishly extravagant and probably foolhardy," and suspects that the opportunity she enjoys of contemplating blackened red snapper in a pleasurable setting may turn out to be expensive for the restaurateurs, but is grateful for the opportunity nonetheless. Ms. Shaw recognizes that no business can operate over the long run without making a profit. But, she concludes, "Bozeman's experience suggests that an endless succession of businesses can operate without profits—as long as there are romantic optimists to take up where the disillusioned leave off." Ms. Shaw sees this as an illustration of George Gilder's conception of entrepreneurs as "givers," as economic agents who "orient their lives to the service of others."

Ms. Shaw's piece got me thinking. Most discussions of entrepreneurial energy, daring, and vision see *profitable* entrepreneurial activity as largely responsible for capitalist success. Ms. Shaw is pointing out that *unprofitable* entrepreneurship offers social benefits, too. Should we, then, celebrate capitalism not only because it stimulates profitable entrepreneurship, but because it stimulates unprofitable entrepreneurship as well? Should we indeed view entrepreneurs who lose money as unselfish benefactors of market societies? Does the "social" perspective suggest that young people should be encouraged to become independent entrepreneurs—even where we judge them likely to lose money—on the grounds that even erroneous entrepreneurs are socially beneficial?

A little thought will convince us, and I believe that Ms. Shaw would thoroughly agree, *not* to arrive at affirmative answers to these questions on the basis of Ms. Shaw's observations. There may be numerous benefits to society that derive from entrepreneurial error—but such benefits are likely to be far outweighed, in the judgment of most observers, by the *harm* caused by entrepreneurial errors. I shall later argue, in fact, that there is only *one* benefit to society arising out of unprofitable entrepreneurship that deserves to be treated as a fundamental advantage. All other benefits, while we may indeed be grateful for them, are likely to be enjoyed at the expense of more serious disadvantages both to others and to ourselves.

A profitable entrepreneurial venture benefits society in a way central to the logic of capitalist success. If an entrepreneur hires productive services for one million dollars and produces consumer goods that are bought for two million dollars, this means that services that might otherwise have produced goods judged to be worth not much more than one million have, in fact, produced goods that are much more valuable to market participants, as measured by money of-

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fered. An unprofitable venture, on the other hand, has *harmed* society insofar as it is likely to mean that it has used valuable, scarce social resources to produce goods worth *less* than other goods that could have been alternatively produced.

As Ms. Shaw has pointed out to us, however, it should not be thought that *no one* in society has benefited from a losing entrepreneurial venture. Clearly those who voluntarily sold to and those who voluntarily bought from losing entrepreneurs, did well for themselves —as do *all* participants in voluntary exchange transactions. Moreover, Ms. Shaw seems to suggest, not only does one who dines in an excellent, but money-losing, restaurant, gain from the venture, others do too. That is, we gather, because the parade of ever-changing opportunities offered by imaginative entrepreneurs undeterred by the losses of others, is itself a fascinating sight to watch, even if many of them, being unprofitable, are likely to disappear after a brief moment in the sun.

Despite all these benefits derived from unprofitable entrepreneurial ventures, we must recognize that few thoughtful observers are likely to judge that, all in all, the members of society should be grateful for this outpouring of entrepreneurial errors. The truth is that each and every entrepreneurial error represents a tragic waste of resources. For every beneficiary of such error, there are likely to be many whose lives, in consequence of this error, are poorer and less fulfilled than was in fact necessary. These victims of entrepreneurial error may never know that they are being harmed by these errors. In fact no one may ever know what alternative products these unprofitable ventures have precluded. As Henry Hazlitt taught us, the true costs of waste are always unseen—yet are nonetheless real and poignant.

The case for capitalism, for free entrepreneurial entry, does not and should not rest upon the possible residual benefits that some may derive from unprofitable entrepreneurial ventures. The great economic virtue of capitalism lies in its ability to stimulate vigorous and imaginative entrepreneurs who create *profitable* enterprises. In this way resources come to be deployed usefully for purposes whose urgency or feasibility had hitherto been overlooked. The virtues of capitalism rest not on any supposed altruism evinced by entrepreneurs who lose money while catering to the tastes of a too-narrow group of consumers, but on the daring and judgment of entrepreneurs who see socially valuable opportunities before others do.

In fact, the one really valuable feature of unprofitable entrepreneurial endeavor lies in its crucially important role in stimulating *profitable* entrepreneurship. Only in a society where entrepreneurs are free to make errors, can we expect an outpouring of entrepreneurship to lift its economy to new, hitherto unglimpsed, heights of prosperity. Only where potential entrepreneurs are free to follow the lure of profits as *they* see them, will there be the unleashing of entrepreneurial vision, daring, and judgment that creates profits in fact—and in so doing, creates new, more valuable ways of utilizing resources.

To be sure, errant entrepreneurs suffer losses, and it is precisely because entrepreneurs with poor judgment are likely to think twice before jumping into dangerous waters, that such erroneous leaps are likely, to some extent, to be discouraged. Moreover, as Ludwig von Mises pointed out, it is likely to be those entrepreneurs who in the past have exhibited sound market judgment, who will have accumulated the capital funds that are now able to be channeled into new entrepreneurial ventures. Hence, the central social gain from losing entrepreneurial ventures is derived not by individuals unusual enough to enjoy the output of these overoptimistic ventures, but by all members of society insofar as they stand to gain from *superior* entrepreneurial judgment—a quality standard enforced by the severe discipline imposed on errant entrepreneurs, and stimulated by the freedom of market participants to follow their dreams and hunches as they, and they alone, see fit.

This freedom will, to be sure, always attract a stream of entrepreneurial fools and romantic optimists. But the incredible successes of capitalism do not depend on such follies; they depend on the stimulus the system provides to farsighted, clear-visioned entrepreneurs who are, at all times, competing away resources from foolish ventures towards more judicious, more accurate, dreams and aspirations. □

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The Farm Problem and Government Farm Programs

by E. C. Pasour, Jr.

Current U.S. farm programs were instituted during the Great Depression of the 1930s. Despite dramatic changes in economic conditions over time in the farm sector, the Food and Security Act of 1985 is remarkably similar to farm programs of the past fifty years. Government programs have not solved the farm problem. Indeed, the level of financial stress on U.S. farms is the highest since the Great Depression of the 1930s even though Federal outlays on farm programs in 1986 were at record high levels. Moreover, there is a growing awareness that our domestic farm programs are more and more anachronistic in a world in which agricultural production is increasingly competitive.[1] This paper defines the farm problem, discusses the effects of farm programs, and demonstrates that a fundamental change in direction of U.S. farm programs is long overdue.

The Farm Problem

The farm problem in the United States historically has been considered to be one of relatively low farm incomes. This problem can be traced in large measure to the destabilizing effects of economic growth.[2] Economic growth leads to a shift of labor and other resources from agriculture to other sectors of the economy as agriculture decreases in *relative* importance. For example, the U.S. farm population decreased from 25 per cent of the total population in 1929 to little more than 2 per cent in 1985. During this period, however, output per hour of farm work increased more than 15 times.[3]

For labor resources to be bid away from agriculture, it is necessary that incomes be higher in nonagricultural occupations. Since incomes of farm workers historically were frequently lower than those of nonfarm workers, on average, it is not surprising that agricultural interests perceived this difference as a "farm problem."

Current farm programs, including price supports, conservation and credit subsidies, subsidized crop insurance, and food assistance programs, were initiated during the Roosevelt New Deal to raise farm product prices and farm incomes. Programs to raise (or even to maintain) farm product prices, however, as shown below, are increasingly at odds with falling worldwide prices of farm products brought about by advances in technology.

Falling prices of farm products is not a new phenomenon. Through the years, mechanization, improved seeds, the development of new pesticides and herbicides, and other increases in technology have resulted in the substitution of capital for labor, thereby dramatically increasing the supply of farm products. The demand for farm products, influenced mainly by gradual increases in population and consumer

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incomes, on the other hand, has increased much more slowly than supply.

The downward trend in farm product prices has implications for government expenditures on price support programs. The more product prices decrease, the higher the taxpayer cost of supporting agricultural product prices at any given level.

Incomes: Farmers, Nonfarmers, and Commercial Farmers[4]

Average income per U.S. farm in 1984 was $28,600. This is somewhat higher than the median income of $22,400 for all households.[5] There are a number of problems, however, in making farm versus nonfarm income comparisons of this kind.

First, the concept of "average income" has little meaning since income per farm operator varies widely, depending on farm size. Almost half of all farms, as measured by sales of farm products, have annual sales of less than $10,000, and these farms account for only about 6 per cent of gross farm income. On the other hand, the largest 5 per cent of the farms (annual sales of more than $250,000) account for almost half of gross farm income.

The average U.S. farm family earns roughly 40 per cent of its income from farming and the other 60 per cent off the farm. However, the importance of off-farm work varies widely with farm size—with off-farm income decreasing in relative importance as farm size increases. On small farms with sales of less than $40,000 per year, most income is now derived from nonfarm sources. Thus, discussions of "average" farm income generally are highly misleading because the farm is not the primary source of income for many farmers, including most small farmers.

Second, any meaningful comparison of farm and nonfarm incomes must consider differences in worker productivity. Indeed, much of the observed inequality in income is due to differences in education, training, and experience.[6]

Third, in making comparisons of living levels for farmers and nonfarmers it is important to make adjustments for differences in costs of living and taxes. For example, the buying power of a given level of money income is somewhat higher for farmers because of income tax advantages and lower costs of living in rural areas. In addition, the individual satisfaction gained from working in the outdoors and of being one's own boss are high enough for some farmers to substitute for a substantial amount of money income. When all of these factors are taken into account, it is questionable whether incomes are now lower in agriculture.

As suggested above, attempts have been made since the 1930s to increase farm incomes —mainly through government programs that raise farm product prices. The effect of these programs is to make incomes within agriculture more unequal, since the benefits of farm programs are tied to the volume of farm sales and vary with farm size. Farmers with sales of less than $40,000 per year, for example, constituted 70 per cent of the farms but received only about one-tenth of the total direct government payments.

On the other hand, the one per cent of the farmers having sales of more than $500,000 per year received more than 10 per cent of the subsidies (which averaged $33,000 per farm on these large farms in 1984). Farm program payments go primarily to farmers whose incomes are far above the median household income for the country as a whole.

However, the largest farms do not always receive benefits from farm programs. Many large farms produce commodities, such as livestock, poultry, nursery products, and fruits and vegetables, that are not covered by price-support programs. Also, there is a $50,000 per producer payment limitation that limits to some extent the benefits of government programs to large farmers. However, exceptions frequently limit the effectiveness of the payment restriction and subsidies to individual producers sometimes exceed $1 million.

There is a growing awareness that the income transfers of farm commodity programs cannot be justified. Even Willard Cochrane, long-time proponent of farm commodity programs and former farm adviser to President Kennedy, now agrees that there is no defensible reason why the nonfarm sector should be called upon to pay higher taxes and food prices

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to finance these programs that redistribute income to higher income farmers.[7]

Financial Stress and Government Payments[8]

The "stabilization" of the farm sector is another commonly stated reason for government price support programs. During the 1980s the debt/asset ratio of U.S. farms, a widely used measure of financial stress, has risen to levels unseen since the Great Depression. The rapid decline of agricultural land and machinery values has been a major reason. Land values nationwide decreased an average of 19 per cent from 1981 to 1985 and the decrease was much larger in regions with the largest land value declines—the Corn Belt, the Lake States, and the Northern Plains.

About 12.5 per cent of all farms are "financially distressed," but financial stress is higher on commercial farms. Despite the fact that commercial farmers receive the lion's share of government payments, most farm subsidies are not targeted toward those farms in financial distress. Indeed, only 17 per cent of the payments in 1984 went to farmers in financial distress who relied primarily on farming for their livelihood.[9]

Other Commodity Programs

Direct payments are not the only means through which commodity programs affect farm income. Some commodity programs raise prices to producers through production or import controls. The sugar program, for example, which holds domestic sugar prices well above the world market level, yields huge benefits to the 12,000 to 13,000 domestic sugar producers. The producer benefits, averaging $120,000 to $145,000 per farm, are achieved through a system of sugar import quotas.[10]

Similarly, the tobacco program raises prices to producers with a system of producer acreage allotments and marketing quotas. In this case, the farmer does not receive a direct government payment as in wheat, cotton, rice, and feed grains programs. Instead, product prices are increased through government-sanctioned and -enforced producer restrictions on production and marketing. The tobacco program is viewed by some agricultural cartel advocates as a model for other farm commodities because the budget outlay is small.

In a still different manner, the dairy program raises milk prices received by dairy producers through government purchases of butter, cheese, and nonfat dry milk. The government purchases enough of these milk products to raise the price of milk to the price-supported level set by Congress.

Outlays on dairy and other price support programs in fiscal 1986 were at record high levels —some $26 billion. However, an analysis of recent trends in net farm income and USDA outlays demonstrates that farm commodity programs do not ensure farm prosperity.

Farm Income and Outlays for Farm Programs[11]

The income derived from farming operations is quite variable from year to year depending upon weather, product prices, and so on. However, net farm income, adjusted for inflation, is considerably lower in the 1980s than it was in the 1960s and 1970s. For example, inflation-adjusted net farm income in 1985 was less than two-thirds the level in 1975. The decrease in farm income has been accompanied by calls for government to "do more." The extent to which Congress has responded is not fully appreciated.

In a recent paper, the author calculated USDA expenditures separately for (1) price support programs, (2) food stamp and other food assistance programs, and (3) "other"programs that include outlays for conservation, subsidized credit, crop insurance, research, and extension.[12]

There has been relatively little increase in real terms in USDA outlays for the latter two categories, i.e., for food assistance or for "other programs" during the past decade. The dramatic increase in USDA outlays since 1980 has been in price support programs. Outlays in current dollars for price supports (including foreign assistance programs) increased more than four times from 1980 to 1985 (from $4 billion to $19.4 billion). And the end is not in sight. Outlays for price support programs in

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fiscal 1986 were $26 billion, and there is growing concern that expenditures will establish new records under the 1985 farm bill. Thus, the record suggests that price support programs are no panacea for the problems plaguing the farm economy.

Why Farm Programs Do Not Ensure Farm Prosperity

In one sense it is ironic that farm financial stress and farm program expenditures are simultaneously at record levels. A closer analysis, however, shows why huge outlays on government farm programs do not provide a long-run solution to problems confronting commercial agriculture.

Income assistance from agricultural price support programs designed to boost farm income is transitory. Benefits from these programs are quickly incorporated into higher prices of land, production and marketing rights, production facilities, and other specialized farm resources that do not show up in farm income. Moreover, the short-run gains from price support programs go mainly to owners of these specialized farm resources and not to farm operators.[13] Furthermore, it is the first generation of owners of farm resources, not farm producers as such, who receive the benefits. After price support programs are initiated or benefit levels increased, benefits of higher producer prices are largely offset by higher production costs. And, once farm commodity programs are begun and the benefits are incorporated into higher input prices, there is no way to terminate or reduce benefit levels for dairy, wheat, rice, cotton, feed grain, and other commodity programs without imposing losses on *all* affected owners of land and other farm assets, regardless of whether they received the original gain.

Moreover, as in the case of price support payments, when increases from farm programs are capitalized into higher prices of land and other inputs, those who own more farm resources receive more benefits. Here again, it is likely to be the higher income commercial farmers who benefit most from increases in prices of land and other farm assets.

In the inflationary environment of the late 1970s, government-subsidized and -sponsored credit programs operated by the Farmers Home Administration and the Farm Credit System created an incentive to expand the size of farm operations through borrowing. The easy government credit policies of the late 1970s was a contributing factor to the farm bankruptcies of the 1980s. As inflationary expectations and farm product prices decreased in the 1980s, farm land prices plummeted and owners of land, capital facilities, and other farm inputs incurred huge losses in real wealth.

Farm price support programs have also been detrimental to exports of farm products. Agriculture traditionally has relied heavily on export markets. The export value of U.S. farm products in fiscal 1986 was about $26.5 billion —some $17 billion below the 1981 record level.[14] And in mid 1986, the U.S. imported more agricultural products than were exported. For the year as a whole, the net farm trade balance (exports less imports) of $6 billion in 1986 was the lowest in 13 years.

Rising Agricultural Productivity

U.S. exports of farm products have been adversely affected by increasing agricultural productivity in other countries. Farm productivity is increasing rapidly throughout much of the world, not only in the United States and Western Europe, but also in the developing countries.[15]

It is ironic that U.S. farm programs have contributed to increased farm output in other countries. The price support loan rates in U.S. commodity programs that effectively set price floors frequently have provided artificial production incentives to farmers in other countries who could produce at less than the U.S. loan rate. As U.S. farm programs tried to reduce farm output after 1981, the rest of the world significantly increased output of wheat, soybeans, cotton, and other products so that U.S. farm exports plummeted.

Most of the government subsidies are received by large farmers whose incomes, on average, already exceed those in the nonfarm sector. In addition to direct payments, farm programs also provide short-term gains to owners of farm land and other specialized re-

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sources. However, there is little long-run benefit because the short-term gains are quickly reflected in higher production costs. For farmers renting or buying land after the programs are initiated, benefits are largely offset by higher production costs. On the other hand, when product prices decrease as during the 1980s owners of farm assets incur losses in real wealth—with large farmers losing more.

Increasingly expensive farm programs will not solve the farm problem. Farm programs have little effect on the long-run returns to farm labor. Since farm labor readily responds to changes in wage rates, increases in product prices mainly affect farm employment rather than wages.[16] Thus, the return to labor in the rest of the economy is far more important in influencing farm wage rates than are farm programs.

Government price support programs for farm products are protectionistic and incompatible with free trade.[17] It is hypocritical for the United States to criticize other countries for using import controls, export subsidies, and other trade restrictions that this nation is also using.

As agricultural productivity rises throughout much of the world and product prices decrease, greater budget outlays will be required to support product prices at any given level. The increased competition for farm products and Federal budget pressures may force U.S. policy makers to do what they have heretofore been unable to do—modify U.S. domestic farm programs to make them compatible with the goal of liberalized trade.

There is no acceptable alternative for U.S. agriculture but to remove price supports and impediments to trade. Deregulation is no painless panacea for current farm woes, but market forces are superior to other means of achieving resource adjustments in agriculture—domestically and internationally. A dismantling of price supports and trade restrictions would enable the United States to use its strongest force in world agriculture markets—the comparative advantage of U.S. farmers based on soils, climate, technology, managerial skills, and efficient marketing and transport systems.

Even if the United States alone were to decontrol its agriculture, the nation and its farmers would be better off than with either of the alternatives—a subsidy contest between nations or strict production controls with the necessary protectionist international trade policies.

Policies that ignore or attempt to isolate U.S. farmers from world market trends cannot be successful in the long run. Protectionism prevents farmers, other workers, and consumers throughout the world from reaping the benefits that occur when individuals are permitted to engage in those activities in which they are most productive. Consequently, policy actions of the United States and other countries have profound implications for farmers in the United States and other countries and for consumers of farm products throughout the world. □

1. The points in this paper are discussed in more detail in the author's paper "The Farm Problem, Government Farm Programs, and Commercial Agriculture" forthcoming in *The Journal of Production Agriculture*.
2. Hendrick S. Houthakker, *Economic Policy for the Farm Sector* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 1967).
3. *Economic Report of the President* (Washington, D.C.: U.S. Government Printing Office, 1986), p. 361.
4. Farm income data in this section are from the *Economic Report of the President*, 1986, pp. 132-134.
5. U.S. Bureau of the Census. *Statistical Abstract of the United States* (Washington, D.C.: U.S. Government Printing Office, 1985), p. 445.
6. Mark Lilla, "Why the 'Income Distribution' Is So Misleading," *The Public Interest* 77 (Fall 1984): 62-76.
7. W. W. Cochrane, "A New Sheet of Music: How Kennedy's Farm Adviser Has Changed His Tune About Commodity Policy and Why," *Choices* (Premier Edition): 23-33.
8. Data on farm financial stress are from the *Economic Report of the President*, 1986, pp. 132-134.
9. Dave Lyons and K. Collins, "Government Payments and Farm Finance." *Update: The 1985 Farm Bill* (Washington, D.C.: The U.S. Department of Agriculture, 1985).
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13. E. C. Pasour, Jr., "Inconsistencies in U.S. Farm Policies: Implications for Change," *Forum for Applied Research and Public Policy*. (Summer 1986): 57-68.
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16. D. G. Johnson, "The Performance of Past Policies: A Critique," pp. 11-36 in *Alternative Agricultural and Food Policies and the 1985 Farm Bill*. G. C. Rausser and K. R. Farrell eds. (Berkeley, California: Giannini Foundation, 1985), p. 27.
17. E. C. Pasour, Jr., "Protectionism and Agricultural Price Supports," *The Freeman* (October 1986): 381-383.

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A Free Market in Kidneys?

by Walter Block

According to recent reports, the black market value of a kidney which can be transplanted is some $13,000—which translates to roughly seven times its weight in gold. This is a dramatic figure, and behind it lies a tale of untold human suffering.

There are thousands of people who desperately need kidney transplants. Paradoxically, there are other thousands of people who die each year, taking healthy kidneys to the grave, who have had no financial incentive to bequeath these organs to those in need. Why, it may be asked, cannot potential donors be given a pecuniary reward for doing the right thing? That is, what precludes a businessman from purchasing the future rights to kidneys from potential donors, and then selling these kidneys to those who need transplants?

The problem is, it is illegal to harness marketplace incentives in order to encourage kidney donors. In the United States, the National Organ Transplantation Act (1984) prohibits the sale of organs for transplantation.

Instead, we resort to all sorts of inefficient stratagems. Celebrities exhort us, in the event we suffer an untimely death, to make a posthumous gift of these organs. Medical schools coach their students on the best techniques for approaching next of kin; the difficulty is that they must ask permission at the precise time when it is least likely to be given—upon the sudden loss of a loved one.

These tactics have been to little avail. While potential recipients languish on painful dialysis machines, the public hasn't signed cards in sufficient numbers giving permission for automatic posthumous donor status. Things have come to such a pass that in Canada there are plans being bruited about which would allow the government to seize the kidneys of accident victims unless they have signed cards denying such permission.

The free enterprise system, were it allowed to operate, might save the lives of thousands of kidney disease patients. A legalized marketplace would offer strong financial incentives for donors. Would you sign a card donating your kidney after death for $13,000, right now, in hard cash? There are very few people who would turn up their noses at such an offer. And if sufficient supplies were still not forthcoming at this level, prices would rise even farther until all demand was satisfied. Given free enterprise incentives, there would be no shortage of kidneys.

This, after all, is the same process we rely on to provide the other necessities of life: food, clothing, and shelter. We do not wait for voluntary donations of these vitally important goods and services.

There is no doubt that those presently responsible for preventing a free market in kidneys act with the noblest of motives. To them, legalizing the purchase and sale of human organs would be degrading. Far better, from their viewpoint, that people donate their bodily parts for free so that thousands of kidney disease sufferers might live normal lives. However, no matter how benevolent the intentions of the prohibitionists, it cannot be denied that the effect of their actions has been to render it less likely that those in need will be served.

It is time to put aside our archaic and prejudicial opposition to the marketplace, so that we can relieve the suffering and, in many cases, lift the death sentence we have inadvertently placed on our fellow citizens. □

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Take Back the Environment

by Jorge E. Amador

Popular mythology has it that in the struggle against selfish private interests, government stands tall as guardian of the common good.

Consider the environment. In the United States, decades of "landmark" legislation, massive bureaucratic growth, and billions in expenditures have left the impression that the state is the environment's friend.

Appearances deceive. Despite its reputation, government's record on environmental protection is at best mixed. Antipollution legislation has encouraged pollution in the name of abating it. Governments at all levels are among the worst defilers of the environment. Government is itself one of the major obstacles to solving the problem of pollution.

There is a better way to safeguard our health and property from noxious substances. But it requires first weaning ourselves from the notion that the benevolent state is doing it for us.

The Law IS the Problem

"Most governmental regulations are aimed at overseeing the permitted release of toxic chemicals into surrounding neighborhoods during a company's normal operations," acknowledges Representative James J. Florio (D-N.J.), one of the strongest proponents of government intervention in the environment.[1]

The law attempts to manage pollution, not to protect its victims. Those who comply with reporting requirements, get the necessary permits, and stay within prescribed limits may pollute with impunity.

The Federal Water Pollution Control Act proclaims that "the discharge of any pollutant by any person shall be unlawful," except only "as in compliance with this section and sections 1312, 1316, 1317, 1328, 1342, and 1344 of this title."[2]

Section 1342 of the Act, for instance, authorizes the Environmental Protection Agency to "issue a permit for the discharge of any pollutant, or combination of pollutants . . . upon condition that such discharge will meet either all applicable requirements . . . [or] such conditions as the Administrator determines are necessary to carry out the provisions of this chapter."[3]

The Hazardous Substances Superfund was established in 1980, ostensibly to make polluters clean up toxic-waste spills and dumps. Hailed as a historic victory for the environment, the law exempts "releases in the workplace and releases of nuclear materials or byproducts, normal field applications of fertilizers and engine exhausts."[4]

It also excuses spills and dumps from paying cleanup costs incurred by the government if the discharges were in compliance with permits issued under any one of a long list of environmental statutes, including the Clean Water Act, Solid Waste Disposal Act, Marine Protection, Research and Sanctuaries Act, Safe Drinking Water Act, Clean Air Act, and the Atomic Energy Act of 1954.[5]

"It is 'the law' that permits environmental degradation," writes Victor Yannacone, a

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prominent lawyer in the field of environmental law. "And now when we look to the law for answers to many of our social and environmental problems, we find that the law itself is the cause of many of those problems."[6]

Politicians and Bureaucrats Decide

Why does legislation that, we were told, was passed to protect the environment end up protecting polluters instead?

"The first and most obvious set of limitations on legislative power is, of course, the quantum of political constraints under which legislatures must operate," writes another environmental lawyer.[7] Like anybody else, lawmakers are affected by what other people tell them. They also have their own preferences. Politicians are ordinary human beings, pushed and pulled by interest groups pursuing competing and often contradictory demands.

Any given vote by the average legislator is the result of a complex balancing process that takes into account these diverse influences. Some want him to stop pollution, others warn that this might ruin the economy. Some represent votes, others offer campaign contributions. The savvy politician tries to keep all sides happy. The result is an Orwellian-named "antipollution" act that actually legitimizes pollution.

Appointed administrators shielded from democratic pressures do little better. Yannacone writes, "If we must find a common denominator for the serious, environmental crises facing all technologically developed countries regardless of their nominal form of government, it would have to be entrenched bureaucracies which are essentially immune from criticism or public action."[8]

Out of political opposition to the program or sheer bureaucratic inertia, civil servants can subvert the best-intentioned acts of legislators. When Congress renewed Superfund last fall, it appropriated $8.5 billion to be spent over the next five years, $1.5 billion of it in the first twelve months. Yet, four months into the fiscal year, only $220 million had been released for Superfund projects.

"One reason," indicated one report, was that the Office of Management and Budget had "not yet approved regulations" drafted by the EPA to guide Superfund spending.[9]

The 1980 Superfund law directed the Department of Health and Human Services to investigate the health hazards of toxic wastes, but, as former EPA policy analyst Fred Smith notes, as of last year "almost nothing" had been done.[10]

The law also prohibited persons from challenging an EPA decision on what cleanup method to use.[11] This rule was intended to prevent parties which might be forced to clean up their sites from stalling enforcement for years. But the knife cuts both ways. By initiating preemptive action, the agency can also prevent victims of pollution from seeking more vigorous enforcement of the law. The officials decide how to use this weapon.

The Supreme Court has expanded bureaucratic freedom to bend environmental legislation out of shape. In 1985, the court allowed the EPA to exempt individual industrial plants from full compliance with limits on toxic discharges into sewage treatment facilities, despite apparently clear language in the Clean Water Act that the agency "may not modify" the limits.[12] When provisions can be interpreted into meaning their opposite, pro-environment legislation can make for open season on the environment.

A History of Encouragement

"It is now clear that the worst offenders in the process of environmental degradation are not the ruthless entrepreneurs dedicated to wanton exploitation of our natural resources," writes Yannacone. Instead, it is "short-sighted, mission-oriented, allegedly public interest agencies."[13] There are some 22,000 sites containing hazardous wastes in the United States. Many are municipal dumps. Military bases alone account for more than 4,000 chemical disposal sites.[14]

Even private pollution is, in very important ways, traceable to public policy. Today, the law protects and encourages polluters at the expense of private interests in healthy bodies and usable property.

Centuries of common tort law developed under the maxim, "So use your own property

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as not to injure the property of another." By this guideline, courts ruled that victims could enjoin polluters and collect from them for damages caused to their property.

The past two centuries, however, reveal a train of legislative and judicial decisions weakening judicial defenses against polluters. The process coincided with the rise of large-scale industry.

Before then, a tanner who spewed noxious fumes through the neighborhood, for instance, could be taken to court by any of his neighbors. Under the law of nuisance, the tanner was preventing his neighbor from enjoying his own property by spreading smells that sickened him or drove him away. He could be assessed damages and enjoined from further release of fumes.

Today, nuisances have been divided into "public" and "private" categories. A "public" nuisance "is an act or omission interfering with an interest common to the general public rather than peculiar to the individual." A "private" nuisance involves "interference with plaintiff's use and enjoyment of his or her land."[15]

This is an important distinction. Because the fumes affect all the neighbors within their reach, they constitute a "public" nuisance, over which a mere individual cannot sue. He would have to show some damage peculiar in kind, not just degree, to himself. "In the absence of special damage to a particular private individual—damage which is substantially greater than that suffered by other individuals in society—a public nuisance is subject to correction only at the hands of public authority,"[16] which are devoted to the political tug-of-war.

Yannacone attributes the change to British jurist William Blackstone (1723-1780). "Until Blackstone there was no distinction made between public and private nuisance. The rule had been well established that any individual could apply to a court of equity to abate a nuisance."[17]

Blackstone acknowledged this was for the convenience of the polluter. It "would be unreasonable to multiply suits by giving every man a separate right of action for what damnifies him in common only with the rest of his fellow-citizens."[18] This line of thinking still

In the days of adherence to common tort law, a tanner who spewed noxious fumes through the neighborhood, for instance, could be taken to court by any of his neighbors.

guides the courts. "The reason usually given is that the defendant must be relieved of the many actions that would result if everyone were free to sue for damages resulting from the common harm."[19]

The deterrent value of facing a mass of suits from angry victims of pollution seems to have been lost in the shuffle.

The traditional causes of action, such as nuisance, trespass, and negligence, have been weakened by the misuse of utilitarian concepts of cost and benefit. William L. Prosser, author of the encyclopedic reference *Law of Torts,* writes, "Chief among the factors which must be considered is the social value of the interest which the actor is seeking to advance."[20]

In *Cases and Materials on Torts* Prosser adds, "In this process the courts take into consideration a number of different factors. . . . Among these are . . . the financial investment of each party, and the relative economic hardship to either from granting or denying the injunction, and especially the interests of the gen-

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eral public in the continuance of the defendant's enterprise.''[21]

In January 1987, a Philadelphia Municipal Court judge ruled in favor of a defense contractor that uses heavy stamping machinery to shape parts for missile casings. The stamping was found to cause irritating and property-damaging vibrations to neighboring homes.

Residents complained of sleepless nights, crying spells, medical bills, and damage to walls. Judge Alexander Macones ruled that the company should not be fined because it provides jobs for 215 people.[22]

Encouraging Growth

As industry demonstrated its ability to lift nations out of poverty, judges became eager to encourage industrial growth. To allow individuals to enjoin, for their private benefit, great technological enterprises from making goods that benefited all would be a disservice to the public interest. ''Therefore the harm visited upon the city's residents had to be chalked up as an accidental by-product of progress.''[23]

''The pollution of the air, so far as reasonably necessary to the enjoyment of life and indispensable to the progress of society, is not actionable,'' chimed in the Georgia Supreme Court in 1911.[24]

A more recent statement came in an oft-cited 1947 Ohio case. In *Antonik v. Chamberlain,* plaintiff sought to enjoin the owner of a private airport because of the noise it created. Court of Appeals Justice Arthur Doyle wrote:

> It is not everything in the nature of a nuisance which is prohibited. There are many acts which the owner of land may lawfully do, although it brings annoyance, discomfort, or injury to his neighbor. . . .
>
> People who live in organized communities must of necessity suffer some damage, inconvenience and annoyance from their neighbors. From these annoyances, inconveniences and damages, they are generally compensated by the advantages incident to living in a civilized state.[25]

This cost-benefit approach is a mistake on its own terms. Costs are shifted, not eliminated, by ruling for the polluter. While the tanner might produce something else with the money spent on pollution abatement, his neighbors would become less productive if they had to put up with the harm the pollution causes.

Shielding polluters from the costs of their actions ''amounted in effect to a subsidy to incipient industry during the takeoff period of industrialization.''[26] If it's ''too costly'' to produce hides without choking adjoining residents, ''society'' will be in a better position to judge the cost of hides if these costs are incorporated into their price. As economist Murray Rothbard observes, ''now all of us are paying the bitter price for this overriding of private property, in the form of lung disease and countless other ailments. And all for the 'common good'!''[27]

Rothbard notes that ''the cost and technology argument overlooks the vital fact that if air pollution is allowed to proceed with impunity, there continues to be no economic incentive to develop a technology that will not pollute. On the contrary, the incentive would continue to cut, as it has for a century, precisely the other way.''[28]

The courts have developed other restrictions that limit the effectiveness of litigation against pollution. One is the statute of limitations, which for nuisance and trespass actions is dated from the time the original action took place. This is a serious obstacle in pollution cases, where the injurious effects of toxic substances may not become evident until years after the statute of limitations has run out.

Under an action alleging negligence, the statute of limitations has been ruled to begin only when the victim discovers the harm.[29] However, negligence theory has grave shortcomings of its own. Robert Best and James Collins note that ''There are four basic elements of any negligence action: A duty or obligation recognized by law requiring conformance to a particular standard of behavior, a breach of that standard, a causal connection between defendant's action or omission and plaintiff's injury, and actual loss or damage to a legally protectable interest.''[30]

If the polluter's actions are sanctioned by law, the victim has no recourse, even though he may have suffered harm and may be able to link the polluter to it.

Protection for government-sanctioned pollu-

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tion has been enshrined in Federal law. The original Superfund legislation, for instance, held that "No person . . . may recover under the authority of this section for any response costs or damages resulting from the application of a pesticide product registered under the Federal Insecticide, Fungicide, and Rodenticide Act."[31]

Congressional Quarterly reports that the new Superfund legislation also bans suits against gas station operators for "costs or damages resulting from release of recycled oil that is not mixed with other hazardous substances, if they are following the regulations and law for handling such oil."[32]

It may be argued that one cannot fault a polluter who was only following the law or taking precautions not to harm his neighbors. This is the basis for the standard of "reasonable conduct" in adjudicating cases.

Though the honest owner of a chemical dump may have dutifully filled all the forms and been careful to use high-quality storage containers, it makes little difference to the unintended victim of his underground leak. We may sympathize with the owner, but his actions injure the victim just the same.

This forms the basis for the idea of strict liability, which recently has gained some ground as a supplement to nuisance, negligence, and trespass.

"Strict liability in tort is based upon the theory that one who realizes profit from the hazards of his or her activity assumes the attending risk and may be held liable for any invasion of the person or property of another, notwithstanding that he or she may be free from all negligence or wrongdoing."[33]

Given the current understanding of strict liability, Best and Collins caution that it "appears unlikely" that the theory will gain as much favor in pollution cases as it has in the field of product liability. Liability is made to hinge on an assessment of whether the activity in question is "abnormally dangerous."[34]

As with nuisance and negligence, the courts have misapplied notions of social utility to provide a basis for defending harm done. Even if it is otherwise "abnormally" dangerous, "though the activity involves a serious risk of harm that cannot be eliminated with reasonable care . . . its value to the community may be such that the danger will not be regarded as an abnormal one."[35]

Who Pays?

Senator Lloyd Bentsen (D-Tex.) hailed the new Superfund law's tax provisions as establishing "a basic principle that is vitally important to the future of the Superfund program: all who contribute to the toxic waste mess must help pay the price of cleaning it up." It would be more accurate to describe the new law as a triumph for the principle of "make somebody else pay."

The $8.5 billion to be allocated will come from a variety of sources. The petroleum and chemical industries, generally acknowledged as the worst offenders in the toxic-waste problem, will pay $4.15 billion. However, these taxes apply to all producers of certain chemicals equally, without regard to the care each company may take to control the leakage of its dangerous waste.

The money will be used to clean up, not just dumps now in operation, but old sites too. Hence, today's oil and chemical firms are being forced to pay for the sins of others before them.

An almost equal amount, $3.75 billion, is due to come from a new tax of 0.12 per cent on corporate income above $2 million in all industries, waste producers or no, and from taxpayers through "general revenues."[36] Polluter spills, the rest of us pay.

Analyst Smith observes that "The Superfund taxes raise money, but create no incentives for anyone to reduce the risks associated with dumps—existing or future."[37] The system makes the conscientious bear their own costs as well as those of the negligent. The result is a perverse incentive to do as little as legally required. Waste producers may not have to pay for their own mess, but they'll have to pay for everybody else's. And so will the rest of us.

Ira Lupu conjectured in 1967 that "once the legislature acts in certain areas, the court may be even less likely than before to touch the areas left unregulated, on the theory that legislative inaction signifies legislative intention to have the area remain unregulated."[38]

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Reality may be even stranger than theory. The Clean Air Act reads: "Nothing in this section shall restrict any right which any person (or class of persons) may have under any statute or common law to seek enforcement of any emission standard or limitation *or to seek any other relief.*" (Emphasis added.)[39] Virtually identical language appears in the Solid Waste Disposal Act, Safe Drinking Water Act, Maritime Protection, Research and Sanctuaries Act (MPRSA), Federal Water Pollution Control Act (FWPCA), and the Clean Water Act.

These clauses would seem clearly to preserve any citizen's common-law grounds for suing polluters. Yet in 1981 the Supreme Court interpreted them into oblivion. In throwing out a suit by fishermen who claimed damage to fishing grounds by various government authorities that were dumping sewage and other waste into the ocean, the court, by a 7-2 majority, ruled "there is no implied private right to action" under the MPRSA or FWPCA.[40]

The justices reasoned that, because Congress devised an elaborate system for enforcement under other sections of the statutes, in spite of its explicit language it really could not have meant to preserve common-law remedies!

"When the remedial devices provided in a particular Act are sufficiently comprehensive, they may suffice to demonstrate congressional intent to preclude" such suits, wrote the majority. "We are convinced that the saving clauses do not refer at all to a suit for redress of a violation of these statutes—regardless of the source of the right of action asserted."[41]

In conclusion, the court held that "the federal common law of nuisance in the area of water pollution is entirely pre-empted by the more comprehensive scope of the FWPCA. . . . We therefore must dismiss the federal common-law claims because their underlying legal basis is now pre-empted by statute."[42]

Abating the Mess

"In our society, the traditional controls have been unable to cope with the continued deterioration of our environment basically because of our failure to recognize pollution for what it is: a form of aggression against society as a whole and our neighbors in particular."[43]

The obstacles seem formidable, but they are not insurmountable. A comprehensive approach to the pollution problem would include the following features:

Put the environmental protection business out of the government's reach. Place it back in the hands of the people most likely to care—those who are directly affected. As we have seen, "environmental protection" laws often serve to protect polluters, not the environment. Pollution management is left to the shifting discretion of politicians and bureaucrats. Courts take legislation as a cue to strike down common-law remedies and to permit pollution in areas not specifically covered by statute.

Tort law improvements. In some ways, this requires nothing more than returning to concepts that were in use for centuries before the Industrial Revolution: Collapse the dual law of nuisance back into one to allow private parties to sue over "public" nuisances.

Avoid the quagmire of determining what constitutes an "abnormal" danger or "reasonable" action, and focus instead on the more objective measure of effects. Whether the polluter was careless or law-abiding, the result hurts the same, and it indicts both the polluter and the officials who assured us their regulations would prevent it.

The new Superfund law did make one significant improvement by overriding the states' statutes of limitations. It provides that these periods begin to run when harm from the hazardous substances it covers was or should have been discovered.[44]

The doctrine of "joint and several" liability is an incentive to carelessness, as anybody with enough cash, even if only marginally involved in the tort, may be hit for the bulk of the award. Replace it with a system for determining major and minor offenders and the extent of their involvement, then assigning each a corresponding share of the amount to be paid.

Incorporate the costs to other parties into cost-benefit calculations. Utilitarian analysis has been denigrated as insensitive to the harm suffered by the victims of pollution. This is so only because these costs have not been factored

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into the formula, tipping the balance toward polluters. Only when polluters pay will the price of technology approximate its actual cost.

There is an intriguing alternative to closing down the plant or installing devices to stop emissions. The polluter might buy a "license to pollute" from his neighbors. The neighbors would agree to let the plant owner emit specified particles or chemicals in exchange for periodic or lump-sum payments calculated to offset the perceived harm the emissions might cause them. Residents who refused to sell harm to their persons or property would still have recourse to the courts. If greater risks were discovered later, those who sold licenses could demand new or higher fees.

Even these reforms would not create a perfect world. A victim may not be able to collect from somebody who simply cannot pay. This reflects man's capacity to do more harm than he can possibly make up for.

But the current methods are even less perfect. They encourage pollution, shield the polluter, and leave his victims defenseless. The alternative would reward the scrupulous and encourage industry to adopt safe methods of dealing with hazardous substances. It would bring to the fore the hidden costs of some of today's technology and enable us to decide whether it is worth the price. □

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A REVIEWER'S NOTEBOOK

Imperialism

by John Chamberlain

Imperialism—or "neo-colonialism" as they prefer to call it—is, with most modern liberals, a dirty word. To them it connotes military or economic subjugation, cultural repression, and all the economic woes connected with capitalism. To the Communists, capitalism must die a violent death once it can find no new overseas opportunities to invest the "surplus capital" generated by capitalist expropriation of the "surplus value" created by the labor of subsistence-level workers in the home territory.

To Lewis Feuer, author of *Imperialism and the Anti-Imperialist Mind* (Buffalo, New York: Prometheus Books, 265 pp., $22.95), both the liberals and the Communists have made the mistake of substituting an "axiom of indictment" for a careful reading of history. The fact is that imperialism's economic consequences were, from the viewpoint of colonized nations, mixed. There can be "regressive" imperialisms in which predatory conquerors work their captive populations to death. There can, however, be "progressive" imperialisms which, while admittedly resting upon suspect moral beliefs suggesting that cultural and economic superiority justifies coercive interference in the affairs of other peoples, confer real economic and social benefits upon colonized nations.

The Mongols, in the early phase of their eruption from inner Asia, were regressive in their attitudes. The Spaniards, who used an enslaved Indian manpower to work the gold and silver mines of Mexico and Peru, were not only regressive in their New World Colonies but, in failing to develop the skills of their citizens at home, they could find no successors to Cortez and Pizarro capable of running an empire. Hitler, at a much later date, was entirely regressive: He drove Jewish scientists who might have given him the A-bomb to other countries, and he quickly lost the allegiance of the Ukrainians who were initially disposed to welcome him as a savior.

By contrast, the Romans were progressive imperialists. In granting Roman citizenship to minorities the Romans, in Feuer's words, liberated "energies for the advancement of civilization and creative activity." The British, French, and Dutch, in their phases of imperial expansion, were careful to provide opportunity for the development of talents. When it came to benefiting from the export of capital, the British, French, and Dutch were quite willing to take their dividends, but they were not hoggish about it. They left something over for local expansion, and they even welcomed the competition of local capitalists.

Feuer lets figures speak for themselves. In Dutch Java, for example, the population rose from 3.5 million in 1800 to some 9.5 million in 1850. Fifteen years later the population had jumped astonishingly to 14,168,000. Alfred Russel Wallace, the co-discoverer with Darwin of the theory of natural selection, found the Javanese to be "well-fed and decently clothed" and "on the whole contented and happy." The leftist ecologist Barry Commoner writes that "the Dutch apparently fostered the increase in the Indonesian population in order to increase the labor forces that they needed to exploit the

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natural resources." But whatever the motive involved in building up the country, the Dutch left Indonesia in good shape.

A Different View

The story of the British in India and Africa, as recounted by Feuer, is quite different from the popular stereotyped version. "Dependency theory" might explain the early-day importation of Lancashire textiles to India. The Sassoons, a Jewish family that had migrated to Bombay from Baghdad in 1833, were following an approved course. But the Sassoons showed little respect for Lancashire when, with the help of machinery imported from England, they started the Jacob Sassoon Mill, with its 100,000 spindles and 2,000 looms. In another plant in Bombay the Sassoons combined all operations from the processing of raw cotton to the decoration of the textiles. The family capped its independence by founding a bank to serve its needs, thus completing an evolution from trading capitalism to "finance capitalism."

In Africa other Jews served with one eye on the establishment of British hegemony and the other on making a good life possible for the black populations. There was Eduard Schnitzer, a Prussian Jew from Silesia, who, under the adopted name of Emin Pasha, commended himself to "Chinese" Gordon as a likely man to rule the vast primitive province of Equatoria as a benevolently scientific governor. Emin Bey, as he became known, banished the slave traders from his domain. When, after the Mahdist victory at Khartoum over Gordon had cut "Equatoria" off from the British in Egypt, the legendary Henry Stanley was sent to bring Emin home. But the obdurate man refused to budge. He not only had his grateful Negroes to care for, he had his ornithological collections to complete.

It was Sir Frederick Gordon Guggisberg, the descendant of a Polish Jew who had escaped across the Russian frontier to avoid conscription in the czar's army, who became famous for his humane work in governing the British African colony of Nigeria. Guggisberg's grandfather was the local butcher of Preston, Ontario; his father was the town's drygoods merchant. Disdaining the shopkeeping vocations of his forebears, Guggisberg went to the Royal Military Academy and was commissioned in the Royal Engineers. He found his way to the Gold Coast in Africa as a surveyor-general. As a director of surveys Guggisberg compiled a handbook of model instructions for the governing of a colony. His rules precluded unpaid labor, and they stipulated that all goods bought from local farmers and workers must be paid for at the market price.

As a governor Guggisberg was, as Feuer describes him, "a builder akin to the old Roman imperialists." He "constructed a new system of roads, a new harbor, and the first college in the Gold Coast. He also brought to completion the magnificent African hospital at Korle Bu. He could truthfully claim that 'thanks to the new roads, I have been the first Governor to enter many important towns in the Colony . . .' " But more important because of the new transport, "the prices for cocoa paid to the farmer rose between 50 and 100 percent."

By some terrible irony Nkrumah, the Marxist dictator who was to undo much of Guggisberg's good work, was a student at Guggisberg's college. Guggisberg might have become cynical by the turn in events, but he never did. He revealed his inmost emotions to his friend and co-worker Colonel J. H. Levey. "Remember," he said to Levey, "that the blood of an oppressed people runs in my veins. I never forgot it. I understood the people of the Gold Coast."

Feuer's complaint about the "good imperialists" is that they decided to get out of the business. In turning over various colonies to socialists of one stripe or another they have left the gates open to the ascendant imperialism of the moment, the one that is directed from Moscow. It is to be regretted that Feuer does not raise or discuss the question as to whether one can morally justify the primary assumption of those defending imperialism, from Pericles to Marx—namely, the assumption that cultural or economic superiority justifies or even demands coercive intervention in the affairs of other nations and peoples. Many defenders of the freedom philosophy thus will find themselves concerned by Feuer's hope that "cumulative crises [might] finally compel the United

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States to assume the power and responsibility'' which could reverse ''the regressive impact of . . . consecutive Soviet reactions . . . .'' Yet at the same time, Feuer provides defenders of the freedom philosophy with an arsenal of weapons to do battle against the economically and historically simplistic arguments about imperialism mounted by thinkers such as Hilferding, Lenin, Bukharin, and contemporary defenders of so-called ''dependency theory,'' and dramatically raises the question as to how, without emulating the coercive interventionism of contemporary imperialists, free people might counter the regressive imperialism centered in Moscow. □

THE MARKET AS AN ECONOMIC PROCESS
by Ludwig M. Lachmann
New York: Basil Blackwell • 1986 • 173 pp. • $29.95

Reviewed by Richard M. Ebeling

Ludwig M. Lachmann has been a leading figure in the revival of the Austrian School of Economics. A student of F. A. Hayek at the London School of Economics in the 1930s, for over half a century he has made major contributions to the theory of capital and business cycles, the theory of expectations in the market economy, and to the theory of social institutions and their evolution.

Having recently celebrated his 80th birthday, Professor Lachmann now has produced what may be seen as a ''summing up,'' a concise restatement and reformulation of his vision, a vision that is captured in the title of his latest work, *The Market as an Economic Process*.

Professor Lachmann believes that for most of the last 100 years economists have followed a false scent in the construction of their models of the market economy. They have reduced the process of market exchange to pure mathematical relationships. In doing so, they have created elegant quantitative images of hypothetical states of market equilibrium. But they have produced little that is insightful about how real markets work in an ever-changing economic and social environment.

Instead, Professor Lachmann begins with the following premises, and comes to the following conclusions:

(1) Economics is concerned with human action and, therefore, must begin from the subjective, or personal, points-of-view of the market participants. But ''subjectivism'' means not only that people's tastes and preferences are different, but that in a complex economy the knowledge that different people possess will be different, too. And from this it necessarily follows that people's expectations about the future will differ because different people will interpret in various ways the differing knowledge available to them.

(2) The market is an ongoing process in which individuals satisfy their wants through exchange. But in a complex economy, resources pass through many hands in the various stages of the production processes before those resources are transformed into usable goods. Production plans begun today, therefore, are based on expectational projections about what goods consumers and other producers will want in an uncertain future, and at what prices they may sell.

(3) Since people's expectations about the future will differ (because each will interpret in his own way what tomorrow will look like on the basis of today's information), there is as much likelihood that people will guess wrong as that they will guess right. As a consequence, people's actions and reactions to changing conditions in the market are as likely to result in disequilibrium plan failures as successful plan coordination.

Economics, therefore, says Professor Lachmann, has two central tasks: to explain the unintended consequences of human action that necessarily occur because of man's inability to fully know the future or know the effects of both his own actions and those of others; and to investigate both theoretically and historically the various types of social and economic institutions (e.g., money, futures and commodity markets, product pricing methods) that have been and are used by market actors in their attempts to find solutions to the vagaries and uncertainties of market exchange.

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To the traditional Austrian emphasis on the problems of knowledge, time, and change in the arena of market activities, Professor Lachmann has added and integrated the problems of people's expectations about the future and what may happen if those expectations diverge. Yet the conclusion he reaches is a disconcerting one: Since people may interpret the future differently in planning their actions, there is no certainty of any sort that the market process brings people's plans into a coordinated pattern through time.

In reaching this conclusion, Professor Lachmann seems to neglect an essential aspect of market processes—one that points to a more optimistic view of market activities.

While not ignoring the role of the entrepreneur in the market, Professor Lachmann does not see the entrepreneur's role and significance in the same way as have Ludwig von Mises and Israel Kirzner. In their analyses it is the entrepreneurs who shoulder the coordinating role, acting as the middlemen between consumer demands and the suppliers of resources to make commodities. Those entrepreneurs who succeed earn profits; those who fail suffer losses. Over time the market weeds out the less competent entrepreneurs and shifts control over resources to those entrepreneurs who demonstrate the greater capacity to anticipate consumer preferences and bring market supplies into balance with market demand. While disappointment and error are inseparable from a world of uncertainty, the market has its own feedback mechanism to minimize their occurrence.

Furthermore, while Professor Lachmann has forcefully drawn attention to the problem of expectations in the market, he has not addressed some crucial questions: How are expectations formed? Why is it that people often hold similar expectations about market situations and about people's reactions in those situations? And how does the institutionalization of such common expectations enable people to match their own plans with the actions and activities of others in the marketplace? These questions offer opportunities for much fruitful work for the new generation of Austrian economists. □

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Books of Note

by John K. Williams

Advocates of the freedom philosophy who minimize the importance of ecclesial beliefs about economics are making a serious mistake. More men and women in the United States—and in my own skeptical nation, Australia—attend church services every Sunday than go to football matches every Saturday! Even non-church people regard mainstream churches as significant agencies of what we have been taught in recent years to call "moral legitimization." For this reason, I urge those who are church members, or whose friends include church members, to read Roger Freeman's essay, *Does American Neglect Its Poor? Comments on the American Catholic Bishops' Pastoral Letter: Economic Justice for All* (Hoover Institution Press, 41 pp., single copies free). Succinctly, thoroughly, and utilizing a minimum of technical economic terminology, Freeman analyzes the recent pastoral letter of the U.S. Catholic bishops. The impact of this letter upon Catholic clergy in particular, and Christian clergy in general, cannot be overstated, and not a few politicians have already made considerable political capital from its conclusions.

Murray Rothbard, in his path-breaking essay, "New Light on the Prehistory of the Austrian School" (in *The Foundations of Modern Austrian Economics*, edited by Edwin T. Dolan, 1976) challenged the cliche that scholastic philosophers and theologians were economic incompetents to be remembered simply for their theory of the "just price." This challenge is sharpened and developed by Alejandro A. Chafuen in his small but tightly written volume, *Christians for Freedom: Late-Scholastic Economics*. (Ignatius Press, 207 pp., $12.95 paperback)

Dr. Chafuen argues that the late Spanish scholastic thinkers who teased out economic insights forged by St. Thomas Aquinas and his immediate successors developed positions uncannily reminiscent of those defended by the

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Austrian school of economics. Any person versed in the tenets of contemporary Austrian economics who reads the "Hispanic scholastics" will experience a strange sense of *déjà vu*. He will encounter a consistently subjective theory of value, an insistence upon the importance of private property rights, an understanding of the nature of money that would have elicited nodding approval from Mises, a theory of interest not unlike that developed by Böhm-Bawerk, and so on.

Michael Novak contributes a Foreword which he concludes by observing that "the Catholic Church will gain [from this volume] a deeper understanding of her own tradition, and she will achieve a clearer sense of her own slow but steady journey toward liberty, in the economic as well as in the political domain." He further notes that Dr. Chafuen's "linking of the Austrian school to the commonsense observations of the Late Scholastics of Salamanca may be a significant event in Latin American intellectual life."

One can but hope that today's religious leaders and economic historians will gain a greater appreciation of the insights developed by the scholastic thinkers.

There are few books which deserve a prominent place on the bookshelves of all lovers of liberty. The English historian (and one-time editor of the left-wing journal, *The New Statesman*) Paul Johnson has penned such a book in his *Modern Times*. (Harper and Row, 1983, 817 pp.)

Painstakingly, Johnson documents the growth between the 1920s and the 1980s of both statism and of the moral relativism which almost invariably is embraced when the reality of natural rights is denied. In the course of so doing, Johnson defends several U.S. Presidents cavalierly dismissed by most contemporary historians, castigates not a few European and English "statesmen" widely hailed as saviors of the West, and provides a compelling account of the rise of tyrants such as Lenin, Stalin, Hitler, Mao, and Castro. Somehow, the author manages to combine an attention to detail with a refusal to be distracted by trivia that is quite extraordinary.

Not surprisingly, given such a wide canvas, one can criticize isolated claims. This reviewer's reading of revisionist historians leads him to question the adequacy of Johnson's account of U.S. involvement in both the First and Second World Wars. Also, while I applaud his defense of transnational corporations against the charge that they spread "U.S. imperialism," I regret his failure to note that many transnational firms have been all too ready to form symbiotic relationships with governments, and thereby have escaped the discipline of the marketplace.

But such criticisms are minor. Like Johnson's earlier work, *A History of Christianity* (New York: Atheneum, 1976) and subsequent volume, *A History of the Jews* (New York: Harper and Row, 1987), *Modern Times* displays the attention to detail, the subtle discrimination, and the ability succinctly but accurately to narrate a complex story, that are all too rare in the writing of history. □

(The Reverend Dr. John K. Williams is a philosopher and theologian based in Australia. He is currently spending his third summer at FEE as a senior scholar in residence.)

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